90-43

No. _____

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In The

# Supreme Court of the United States

October Term, 1989

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA,

*Petitioner,*

v.

THE PAYMASTER CORPORATION,

*Respondent.*

## PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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## QUESTIONS PRESENTED

Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), renders actionable two distinct forms of unfair competition: (1) false designation of origin; and (2) false advertising. In the instant case, the United States Court of Appeals for the Ninth Circuit held that a claimant can prevail on a claim under the first prong of the Act, *i.e.*, false designation of origin, without proof that the defendant infringed on a protected interest of the claimant in the nature of a mark, symbol, name, trade dress, or other identifying feature. The questions presented are:

1. Does the prong of § 43(a) of the Lanham Act which renders actionable the false designation of origin of a good or service, proscribe methods of competition which do not infringe on any mark, symbol, name, trade dress or other identifying feature of a competitor?

[Note: Petitioner reserves the right to argue Question 2 in the event certiorari is granted on the above question, but does not include Question 2 among the reasons for the grant of certiorari].

2. Does § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), provide a remedy to a plaintiff who has presented no probative evidence that the defendant's alleged conduct, rather than prevailing adverse market conditions, caused its alleged decrease in profits?

## PARTIES TO THE PROCEEDING

The parties are those named in the caption. In compliance with Supreme Court Rule 28.1, the following is a list of all parent companies, non-wholly owned subsidiaries and affiliates of petitioner:

**Parent Company**

American Bankers Insurance Group, Inc.

**Non-Wholly Owned Subsidiaries**

Caydeaux Group, Ltd.
Caydeaux Life Assurance Company, Ltd.
Caydeaux Insurance Company, Ltd.

**Affiliates**

American Bankers Life Assurance Company of Florida
American Bankers Acceptance Corporation
American Bankers Capital, Inc.
American Reliable Insurance Company
American Summit General Agency, Inc.
Associated Insurance Agency
Green Streak, Inc.
Guardian Investment Services Incorporated
H&D Graphics, Inc.
National Insurance Agency
Roadgard Motor Club, Inc.
Sureway Leasing, Inc.
American Bankers Financial Services
A.B.F.S. Insurance Agency, Inc.

## PARTIES TO THE PROCEEDING – continued

Grand General Agency
ABL Agents' Services, Inc.
ABLAC Property Management, Inc.
Caribbean American Life Assurance Company
First Interstate Insurance Company
Intrawest Insurance Company

TABLE OF CONTENTS

Page

QUESTIONS PRESENTED ..... i

PARTIES TO THE PROCEEDING ..... ii

TABLE OF AUTHORITIES ..... v

OPINIONS BELOW ..... 1

JURISDICTION ..... 1

STATUTORY PROVISIONS INVOLVED ..... 2

STATEMENT OF THE CASE ..... 3

REASONS FOR GRANTING THE WRIT ..... 6

I. The Ninth Circuit's Extension Of The Scope Of The Lanham Act To Methods Of Competition Which Do Not Infringe On A Protected Interest Of Any Competitor Is Far Beyond The Intent Of Congress, And Conflicts With Decisions Of Numerous Other Circuits ..... 6

II. The Decision Of The Ninth Circuit Has Raised Important Questions Which Must Be Resolved By This Court ..... 13

CONCLUSION ..... 17

APPENDIX ..... App. 1

# TABLE OF AUTHORITIES

Page

CASES:

*Abernathy & Closther, Ltd. v. E & M Advertising, Inc.*, 553 F. Supp. 834 (E.D.N.Y. 1982) ..... 7

*Alfred Dunhill Ltd. v. Interstate Cigar Co., Inc.*, 499 F.2d 232 (2d Cir. 1974) ..... 6

*Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc.*, 781 F.2d 604 (7th Cir. 1986) ..... 10, 15

*Can-Am Engineering Co. v. Henderson Glass, Inc.*, 814 F.2d 253 (6th Cir. 1987) ..... 7, 9

*Centaur Communications, Ltd. v. A/S/M Communications, Inc.*, 830 F.2d 1217 (2d Cir. 1987) ..... 9

*Conagra, Inc. v. Singleton*, 743 F.2d 1508 (11th Cir. 1984) ..... 9

*Co-Rect Products, Inc. v. Marvy! Advertising Photography, Inc.*, 780 F.2d 1324 (8th Cir. 1985) ..... 9

*Federal-Mogul-Bower Bearings, Inc. v. Azoff*, 313 F.2d 405 (6th Cir. 1963) ..... 6, 11, 12

*Geisel v. Poynter Products Inc.*, 283 F. Supp. 261 (S.D.N.Y. 1968) ..... 7

*Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982) ..... 9

*L&L White Metal Casting Corp. v. Joseph*, 387 F. Supp. 1349 (E.D.N.Y. 1975) ..... 12

*Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817 (9th Cir. 1980) ..... 14

TABLE OF AUTHORITIES – Continued

Page

*New West Corp. v. NYM Co. of California, Inc.*, 595 F.2d 1194 (9th Cir. 1979) ..... 12

*Quabaug Rubber Co. v. Fabiano Shoe Co., Inc.*, 567 F.2d 154 (1st Cir. 1977) ..... 6, 8

*Smith v. Montaro*, 648 F.2d 602 (9th Cir. 1981) ..... 12

*Toho Co., Ltd. v. Sears, Roebuck & Co.*, 645 F.2d 788 (9th Cir. 1981) ..... 6

*U-Haul International, Inc. v. Jartran, Inc.*, 681 F.2d 1159 (9th Cir. 1982) ..... 7

*Union Manufacturing Co., Inc. v. Han Baek Trading Co., Ltd.*, 763 F.2d 42 (2d Cir. 1985) ..... 7

*United Commercial Insurance Services v. United States Postal Service*, 650 F. Supp. 592 (D.D.C. 1986) ..... 15

*United States Golf Ass'n v. St. Andrews Systems, Data-Max, Inc.*, 749 F.2d 1028 (3d Cir. 1984) ..... 9

*Vibrant Sales, Inc. v. New Body Boutique, Inc.*, 652 F.2d 299 (2d Cir. 1981) *cert. denied*, 455 U.S. 909 (1982) ..... 7, 15

*Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660 (Fed. Cir.), *cert. denied*, ___ U.S. ___, 109 S.Ct. 498 (1988) ..... 7

*WSM, Inc. v. Hilton*, 724 F.2d 1320 (8th Cir. 1984) ..... 7

*Yarmuth-Dion, Inc. v. D'ion Furs, Inc.*, 835 F.2d 990 (2d Cir. 1987) ..... 8

STATUTES:

15 U.S.C. §§ 1-7 (1973 & Supp. 1990) ..... 14

15 U.S.C. §§ 12-27 (1973 & Supp. 1990) ..... 14

15 U.S.C. § 1052(e)(3)(1976) ..... 12

15 U.S.C. § 1052(f) (1976) ..... 12

TABLE OF AUTHORITIES – Continued

Page

15 U.S.C. § 1125(a) (1982) ..... 2, 4

28 U.S.C. § 1254(1) (Supp. 1990) ..... 1

39 U.S.C. § 3001(d) (1980) ..... 15

§ 43(a) of the Lanham Act ..... *passim*

The Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3946 (1988) ..... 2

TEXT AND ARTICLES:

Bauer, *A Federal Law of Unfair Competition: What Should be the Reach of Section 43(a) of the Lanham Act?*, 31 UCLA L. Rev. 671 (1984) ..... 13

1 R. CALLMANN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 18.2(b) (3d ed. 1967) ..... 9

1 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 15:3 (2d ed. 1984) ..... 10

2 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 27:2 (2d ed. 1984) ..... 7

The petitioner, American Bankers Insurance Company of Florida (hereinafter "ABIC") respectfully prays that a writ of certiorari issue to review the opinion of the United States Court of Appeals for the Ninth Circuit entered in the above-entitled proceeding on January 8, 1990 and rendered on May 2, 1990.

## OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit, which appears in the appendix hereto, at App. 1-9, *infra*, was deemed by that court to be "not appropriate for publication" and is therefore unreported.

The Memorandum Decision and Order of the United States District Court for the Central District of California, which appears in the appendix hereto, at App. 12-34, *infra*, is unreported.

## JURISDICTION

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1)(Supp. 1990).

The decision of the circuit court, affirming the final order of the district court, was entered January 8, 1990. A timely Petition for Rehearing with Suggestion for En Banc Reconsideration was denied on May 2, 1990. App. 10-11. The time within which to apply for certiorari thus runs from the date of that later order and expires on July 31, 1990.

## STATUTORY PROVISIONS INVOLVED

The relevant act of Congress is Section 43 of the Federal Trademark Act of 1946, as amended (The Lanham Act), 15 U.S.C. § 1125(a)(1982):[1]

> (a) Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

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[1] The Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3946 (1988) (effective November 16, 1989) which amended § 43(a), left unaffected the claim for false designation of origin. Thus although the Ninth Circuit's holding construed the 1982 version of the statute, that holding is equally applicable to the present version of the statute.

## STATEMENT OF THE CASE

The Paymaster Corporation ("Paymaster") is the largest manufacturer and wholesaler of manual check writing machines in the United States. It controls approximately 75% of the mechanical check writer market. Paymaster's machines are sold with a two year defective parts warranty and check forgery indemnity agreement which, at the expiration of the two year period, are renewable for a fee. United Commercial Insurance Service, Inc. ("UCIS") itself does not manufacture or sell check imprinting devices. It does, however, offer a package to owners of check writing machines which consists of a mechanical service contract (providing periodic machine maintenance and replacement parts protection), and an insurance policy, underwritten by ABIC, protecting the insured against check forgery and alteration. UCIS's package was sold for a term of one year, or for three years under an extended coverage option. The package was specifically designed to compete with Paymaster's warranty and indemnity programs.

UCIS marketed its product exclusively by mail solicitation to the types of businesses that were likely to own check writing machines. Paymaster, on the other hand, exclusively marketed its product door-to-door.

From 1976 through 1985, UCIS mailed approximately 45 million solicitations. The UCIS mailer consisted of a tear-out application, a products comparison page and a postage paid, self-addressed return envelope. The mailer was designed by UCIS with the assistance of J. Walter Thompson Co., a nationally recognized direct marketing advertising firm.

Nowhere in its solicitations did UCIS ever use a mark, symbol, name, trade dress or other identifying feature of Paymaster. The only name or mark referred to in the solicitation was that of UCIS.

Litigation arose between UCIS and Paymaster wherein UCIS alleged that Paymaster had violated federal antitrust laws. The trial court specifically found that Paymaster had sufficient economic power in the check writing machine market (at least 70%) to appreciably restrain competition in the forgery and alteration insurance market, and entered a partial summary judgment against Paymaster on that issue. Subsequently those antitrust claims were concluded by a monetary settlement payment made to UCIS.

In that same litigation, Paymaster initiated its counterclaim against UCIS and ABIC under § 43(a) of the Lanham Act 15 U.S.C. § 1125(a) (1982) (the "Lanham Act"), and various pendent state claims.[2] The basis of its Lanham Act claim was twofold. First, Paymaster alleged that UCIS attempted to "trick" check writing machine owners into purchasing the UCIS package by using an application form in the direct mail solicitation which looked like an invoice. That practice, Paymaster alleged, constituted false designation of origin.

Second, Paymaster alleged that UCIS engaged in false advertising by using a deceptive product comparison sheet in the direct mail solicitation. This, Paymaster alleged, constituted false description and representation.

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[2] The shareholders of UCIS, Burton Rayden, Jeffrey Rayden and Joel Rayden, were also named as counter-defendants.

The case proceeded to jury trial and a general verdict was returned awarding $5.5 million in compensatory damages against all of the counter-defendants, $3 million in punitive damages against UCIS, and $2,361,000 in punitive damages against ABIC. In addition, Paymaster was awarded costs in the amount of $517,707.01.

Both ABIC and UCIS filed timely motions for judgment notwithstanding the verdict or, alternatively, for a new trial. In its motion, ABIC argued that Paymaster had presented no evidence of the infringement of a protected interest, *i.e.*, a mark, symbol, name, trade dress or other identifying feature, which is required to be proven in a claim for false designation of origin under § 43(a) of the Lanham Act. That motion was denied by the district court and judgments were entered against UCIS and ABIC.

ABIC timely filed its notice of appeal of the district court's decision and commenced appellate proceedings in the United States Court of Appeals for the Ninth Circuit. As it did in the district court, ABIC argued to the circuit court that Paymaster had failed to present any evidence of the infringement of a protected interest as required under a false designation of origin claim under § 43(a) of the Lanham Act. The circuit court addressed ABIC's argument in regard to Paymaster's false designation of origin claim, and expressly held that "Paymaster was not required to establish the infringement of a 'protected interest' . . . " App. 6.

ABIC filed a timely petition for rehearing with suggestion for en banc consideration of the Lanham Act issue. ABIC specifically argued that the circuit court's

holding that a plaintiff could recover under a false designation of origin claim without presenting evidence of an infringement upon a protected interest, was contrary to all controlling law, including precedent in the Ninth Circuit. The circuit court denied the petition for rehearing and rejected the suggestion for rehearing en banc. Thereupon ABIC initiated these certiorari proceedings.

## REASONS FOR GRANTING THE WRIT

### I.

### The Ninth Circuit's Extension Of The Scope Of The Lanham Act To Methods Of Competition Which Do Not Infringe On A Protected Interest Of Any Competitor Is Far Beyond The Intent Of Congress, And Conflicts With Decisions Of Numerous Other Circuits.

The Ninth Circuit's holding that a plaintiff may recover under § 43(a) of the Lanham Act for a claim of "false designation of origin," without proving the infringement of a protected interest, is in conflict with virtually every decision to reach the issue. The holding extends the breadth of the Lanham Act far beyond that ever intended by Congress and that which is tolerable in today's commercial markets.

It has been repeatedly held that the Lanham Act is not a boundless remedy for all unfair trade practices. *Toho Co., Ltd. v. Sears, Roebuck & Co.*, 645 F.2d 788, 792 (9th Cir. 1981); *Quabaug Rubber Co. v. Fabiano Shoe Co., Inc.*, 567 F.2d 154, 160 (1st Cir. 1977); *Alfred Dunhill Ltd. v. Interstate Cigar Co., Inc.*, 499 F.2d 232 (2d Cir. 1974); *Federal-Mogul-Bower Bearings, Inc. v. Azoff*, 313 F.2d 405, 409 (6th Cir.

1963); 2 J. McCarthy, Trademarks and Unfair Competition § 27:2 (2d ed. 1984). Rather, § 43(a) codified only two of the numerous proscriptions found in the generic common-law tort of unfair competition: (1) false designation of origin, which encompasses the infringement of trade identity; and (2) false advertising, which encompasses the misrepresentation of the quality or characteristics of one's own goods. *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 670 n.8 (Fed. Cir.), *cert. denied*, ___ U.S. ___, 109 S.Ct. 498 (1988); *Can-Am Eng'g Co. v. Henderson Glass, Inc.*, 814 F.2d 253 (6th Cir. 1987); *WSM, Inc. v. Hilton*, 724 F.2d 1320, 1331 (8th Cir. 1984); *U-Haul Int'l, Inc. v. Jartran, Inc.*, 681 F.2d 1159 (9th Cir. 1982); *Vibrant Sales, Inc. v. New Body Boutique, Inc.*, 652 F.2d 299 (2d Cir. 1981); *Abernathy & Closther, Ltd. v. E & M Advertising, Inc.*, 553 F. Supp. 834 (E.D.N.Y. 1982); 2 J. McCarthy, Trademarks and Unfair Competition § 27:2 (2d ed. 1984).

A claim for false designation of origin is one in the nature of a claim for infringement of an unregistered mark. As stated in one of the most oft-cited passages describing such a claim:

> Section 43(a) provides relief against that kind of unfair competition which is analogous to the misappropriation or misuse of tradenames or trademarks. The unfair competition must involve a misuse of a "distinguishing characteristic" of the manufacturer's product or of the manufacturer himself.

*Geisel v. Poynter Products Inc.*, 283 F. Supp. 261, 267 (S.D.N.Y. 1968). *See also Union Mfg. Co., Inc. v. Han Baek Trading Co., Ltd.*, 763 F.2d 42, 48 (2d Cir. 1985) (a claim for false designation of origin is "recognized, with regard to

unregistered trademarks, as the equivalent of a claim for trademark infringement.").

Prior to the Ninth Circuit's decision at bar, every circuit to address the issue had held that to prevail in a claim for false designation of origin, the plaintiff must prove that it had a protected interest which was infringed. Indeed the Ninth Circuit's decision that "Paymaster was not required to establish the infringement of a 'protected interest' in the nature of a trademark . . . " is in direct conflict with all of those decisions.

Contrary to the Ninth Circuit's holding, the First and Second Circuits have expressly required that a § 43(a) plaintiff prove the infringement of a "protected interest." In *Yarmuth-Dion, Inc. v. D'ion Furs, Inc.*, 835 F.2d 990 (2d Cir. 1987), upon construing whether the defendant's conduct fell within the parameters of § 43(a), the Second Circuit stated:

> [Section 43(a)] protects unregistered marks or trade names such as [plaintiff's]. We have developed a two-step test for determining whether an unregistered mark has been infringed. *First, a plaintiff must demonstrate that his mark merits protection under the Lanham Act*. Then, if the mark is protectable, the plaintiff must establish the likelihood of confusion . . .

*Id.* at 992-93 (emphasis added, citation omitted).

In *Quabaug Rubber Co. v. Fabiano Shoe Co., Inc.*, 567 F.2d 154 (1st Cir. 1977), the First Circuit, upon construing a § 43(a) claim stated:

> [The] dispositive question is whether plaintiff has a reasonable interest to be protected. . . .

*Id.* at 160, *citing* 1 R. CALLMANN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 18.2(b) (3d ed. 1967).

Other circuits, although less explicit than the First and Second Circuits, have been no less clear that a § 43(a) plaintiff need prove the infringement of a protected interest. The Ninth Circuit's decision is in conflict with decisions from the Third, *United States Golf Ass'n v. St. Andrews Systems, Data-Max, Inc.*, 749 F.2d 1028 (3d Cir. 1984), Sixth, *Can-Am Eng'g Co. v. Henderson Glass, Inc.*, 814 F.2d 253 (6th Cir. 1987), Eighth, *Co-Rect Products, Inc. v. Marvy! Advertising Photography, Inc.*, 780 F.2d 1324 (8th Cir. 1985), and Eleventh Circuits, *Conagra, Inc. v. Singleton*, 743 F.2d 1508 (11th Cir. 1984). In each of those cases, the courts held that to prevail in a § 43(a) claim for false designation of origin, the plaintiff must first prove that the plaintiff's interest claimed to have been infringed has risen to the level of a trademark right by acquiring a "secondary meaning."[3] "The inquiry into the existence of secondary meaning examines whether the proponent of the mark has acquired a protectable interest in it." *Centaur Communications, Ltd. v. A/S/M Communications, Inc.*, 830 F.2d 1217, 1221 (2d Cir. 1987).

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[3] This Court has defined "secondary meaning":

> To establish secondary meaning, a manufacturer must show that, in the minds of the public, the primary significance of a product feature or term is to identify the source of the product rather than the product itself.

*Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 851 n.11 (1982).

Rather than requiring Paymaster to prove the infringement of a protected interest, the Ninth Circuit held that Paymaster could prevail on its false designation of origin claim merely upon a showing that the defendants' method of marketing could have caused confusion among consumers as to the source of the product offered. A purchaser cannot, however, be "confused [under the Lanham Act] unless he is looking for a label he recognizes and picks up another in his confusion. Ergo, a buyer who does not recognize plaintiff's 'mark' and does not distinguish it from any other, cannot be confused." 1 J. McCarthy, Trademarks and Unfair Competition § 15:3 (2d ed. 1984).

The Ninth Circuit's decision, that evidence of confusion caused by a method of marketing is alone sufficient to prevail under § 43(a), directly conflicts with the Seventh Circuit's decision of *Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc.*, 781 F.2d 604 (7th Cir. 1986). There, the plaintiff sued a competitor under § 43(a) for its use of a marketing method (i.e. using a yellow pages advertisement very similar in format to the plaintiff's) in order to divert the plaintiff's customers to the competitor. Upon affirming a summary judgment entered for the competitor, the Seventh Circuit held that because the plaintiff could not establish that its method of marketing was a protectable interest in the nature of a trademark, the issue of consumer confusion was not even to be addressed:

> There may be some confusion from S.O.S.'s use of a similar location box, but confusion is endemic to consumer markets; and a court doesn't even reach the question of likelihood of confusion until persuaded that the putative

> mark is sufficiently distinctive to warrant prima facie protection as a trademark. This one is not.

*Id.* at 610. The Seventh Circuit noted that even if the defendant had intended to cause confusion by its method of marketing, there would be no viable § 43(a) claim absent the infringement of a protected interest. *Id.* at 611.

That the Ninth Circuit's decision is in conflict with virtually every case to have addressed the issue at bar is even exhibited by the very cases cited by the court in its decision. None of those cases holds that a plaintiff can prevail in a claim for false designation of origin without establishing the infringement of a protected interest. Rather, the court cites three cases for the general proposition that proof of the infringement of a "registered" or "technical" trademark is not necessary to prevail in a § 43(a) action. Although that proposition is now widely accepted as settled law, it does not support the Ninth Circuit's holding. Even the courts which decided the three cited cases recognized that although § 43(a) does not require proof of the infringement of a registered trademark, the infringement must be of an interest *in the nature of a trademark.*

The first case cited, *Federal-Mogul-Bower Bearings, Inc. v. Azoff*, 313 F.2d 405 (6th Cir. 1963), is the seminal case deciding that the word "origin" in the phrase "false designation of origin" refers not only to geographic origin, but also to origin of source of manufacture. In no manner, however, did the court rule, advocate or even indicate that the scope of § 43(a) should be boundless. On the contrary, the court recognized that § 43(a) was designed

as a remedy for a select few of the numerous acts which can be termed "unfair competition." As stated by the court, the intent of § 43(a) was to eliminate "forms of misrepresentation which are of the same general character" as "the misuse of trademarks." *Id.* at 409.

Equally contrary to the Ninth Circuit's holding is the second case cited in its decision, *L&L White Metal Casting Corp. v. Joseph*, 387 F. Supp. 1349 (E.D.N.Y. 1975). There, the plaintiff unsuccessfully sought damages under § 43(a) from a competitor who used photographs of the plaintiff's product to sell its similar product. That district court, as most courts have, recognized that § 43(a) provided a remedy for forms of unfair competition other than "palming off." To succeed in its case, however, the plaintiff was required to establish that the image of its product depicted in the photograph "operates much in the manner of a trademark. . . . " *Id.* at 1356.

The last case cited by the Ninth Circuit, *Smith v. Montoro*, 648 F.2d 602 (9th Cir. 1981), is itself a Ninth Circuit decision. There an actor sued a film distributor under § 43(a) for removing his name from the credits of a film. Upon holding that the actor stated a cause of action, the court noted that under § 43(a), "[t]he dispositive question is whether the party has a reasonable interest to be protected against false advertising." *Id.* at 605, *citing New West Corp. v. NYM Co. of Cal., Inc.*, 595 F.2d 1194, 1198 (9th Cir. 1979). Citing to *Federal-Mogul-Bower Bearings, Inc., supra*, the court recognized that § 43(a) protects interests in the nature of trademarks, and that under certain circumstances the names of movie actors may be registered under title 15 U.S.C. §§ 1052(e)(3) and (f) (1976). *Id.* at 605 n.2.

None of the three cases cited by the Ninth Circuit supports its holding that a plaintiff can prevail in a § 43(a) claim for false designation of origin without establishing the infringement of a protected interest in the nature of a trademark. In fact, each case can be cited for the exact opposite proposition.

The decision of the Ninth Circuit is in irreconcilable conflict with the decisions of numerous other circuits. That conflict can only be resolved by plenary consideration of the matter by this Court.

## II.

## The Decision Of The Ninth Circuit Has Raised Important Questions Which Must Be Resolved By This Court.

This Court has yet to address the question of whether a method of competition which does not infringe on a protected interest is violative of the first prong of § 43(a), *i.e.*, false designation of origin. It is, however, an issue of monumental importance. The answer is determinative of whether entrepreneurs who wish to enter a market already dominated by one provider may realistically enter that market without violating the Lanham Act.

Recent comment has suggested that § 43(a) should be read by courts in a manner broad enough to include conduct which has never before been recognized as "unfair competition" under the Lanham Act. Bauer, *A Federal Law of Unfair Competition: What Should be the Reach of Section 43(a) of the Lanham Act?*, 31 UCLA L. Rev. 671 (1984). Any rule of law, however, which defines a false designation of origin as any type of competition other

than the infringement of a protected interest in the nature of a trademark, runs afoul of Congress' intent to discourage market monopolization by enacting the Sherman Act, 15 U.S.C. §§ 1-7 (1973 & Supp. 1990), and the Clayton Act, 15 U.S.C. § 12-27 (1973 & Supp. 1990).

It is now generally acknowledged that the recognition of a trademark as a protected interest, although granting exclusive rights to the owner, does not run counter to the existing antitrust laws. In fact, trademarks foster antitrust principles by encouraging competition:

> [Defendant's] pejorative use of "monopoly" implies that Strauss's trademark right is harmful and anti-competitive. On the contrary, the pocket tab trademark gives the public a reliable indication of source and thus facilitates responsible marketplace competition.

*Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817, 821 n.5 (9th Cir. 1980). The owner of a trademark does not have exclusive access to the market of a particular good, only exclusive use of its particular mark in that market. Those wishing to enter that market can attempt to convince consumers that their product, as identified by their mark, is superior to the ones already existing in the market. This is the type of healthy competition upon which this country's economic strength was built.

There is no doubt that when a competitor enters a market that has been dominated by one provider, some consumer confusion will result. Even if the competitor uses its own distinctive mark to promote its product, inattentive consumers who have grown accustomed to the fact that the type of good they have been purchasing has been produced by one company, may not realize that

the good they are now purchasing is produced by the competitor. "[C]onfusion [,however,] is endemic to consumer markets." *Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc.*, 781 F.2d at 610. This is why consumer confusion, alone, cannot render a method of competition violative of the Lanham Act. Put another way:

> Although some customers may have believed that defendant's product came from the same source as that of plaintiff, they did so not because of any distinctive, unique or non-functional mark or feature but because plaintiff's functional product was the only one with which they were acquainted, due undoubtedly to plaintiff's advertising. This is not enough to entitle plaintiff to relief under § 43(a) of the Lanham Act.

*Vibrant Sales, Inc. v. New Body Boutique, Inc.*, 652 F.2d 299, 305 (2d Cir. 1981), *cert. denied*, 455 U.S. 909 (1982). It is only when confusion results from the infringement of a protected interest of the initial provider that a remedy exists under § 43(a).

Any other rule would entitle a provider, who dominates a market, to a virtual monopoly over that market. No competitor would be allowed to enter that market without first dispelling the possibility of consumer confusion. First, this is an impossible task. Inattentive consumers who care not about labels or advertising will always exist.[4]

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[4] *See United Commercial Ins. Servs. v. United States Postal Serv.*, 650 F. Supp. 592, 598 (D.D.C. 1986) (holding that the UCIS mailer would not be confusing to those who read it, and thus did not violate 39 U.S.C. § 3001(d) (1980), which is designed to protect those who might reasonably construe a solicitation as a bill.)

Second, even if complete consumer education could be accomplished, it would virtually assure the economic death of the newcomer. The only permissible marketing scheme would be "We are not brand A" as opposed to "We are brand B." The required negative marketing would be so ineffectual as to discourage any newcomer to enter a market already dominated by one provider. This would, of course, be antithetical to every antitrust concept presently existing.

Yet this is precisely the effect of the Ninth Circuit's holding. Paymaster does dominate the check writing machine servicing/indemnity package market (to the point where it was held to have violated federal antitrust laws). The attempt of ABIC and UCIS to break into that market was accomplished without infringing on any protected interest of Paymaster. (The Ninth Circuit expressly recognized that there was no evidence that a protected interest had been infringed). The mail solicitations clearly marked UCIS and ABIC as the provider of the offered product and in no manner used the name or any mark of Paymaster. Indeed, inattentive customers of Paymaster may have, without reading the order form, simply returned it assuming that they were ordering from Paymaster. This, however, does not render UCIS's attempt to break into Paymaster's market and compete with Paymaster violative of the Lanham Act.

The decision of the Ninth Circuit has virtually assured that Paymaster will be able to continue its monopoly over the check writing machine service/ indemnity market. If allowed to stand, the Ninth Circuit's decision will deny all potential competitors the right to compete in that market. Additionally, the consumers who

make up that market will be denied the benefits which result from competition between providers of a product.

The decision of the Ninth Circuit has raised questions of great importance to all those who are the target of the protection of the antitrust laws, *i.e.*, competitors and consumers. Resolution of those questions by this Court's plenary consideration is essential.

## CONCLUSION

For the foregoing reasons, this Court should grant the petition for writ of certiorari.

Respectfully submitted,

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## INDEX TO APPENDIX

Page

1. Memorandum Decision of United States Court of Appeals for the Ninth Circuit, Dated January 8, 1990..... App. 1

2. Order Denying Petition for Rehearing of United States Court of Appeals for the Ninth Circuit, Dated May 2, 1990.....App. 10

3. Memorandum of Decision and Order of United States District Court, Central District of California, Dated August 8, 1986.....App. 12

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

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| UNITED COMMERCIAL INSURANCE SERVICE, INCORPORATED, dba UNITED CHECKWRITER SERVICES; BURTON D. RAYDEN; JEFFREY L. RAYDEN; JOEL RAYDEN,<br><br>Plaintiffs-Appellees,<br><br>v.<br><br>THE PAYMASTER CORPORATION,<br><br>Defendant,<br><br>and<br><br>AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA, INC.,<br><br>Defendant-counter-claimant-Appellant. | No. 87-6020<br><br>D.C. No. CV-80-3780-PAR-8<br><br>*MEMORANDUM**<br><br>(Filed Jan 8, 1990) |

Appeal from the United States District Court
for the Central District of California
Pamela Ann Rymer, District Judge, Presiding

Argued and Submitted November 2, 1989
Pasadena, California

Before: HUG, CANBY, and BOOCHEVER, Circuit Judges.

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* This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except as provided by 9th Cir. R. 36-3.

This appeal by American Bankers Insurance Company of Florida ("ABIC") is from the judgment entered on the jury verdict awarding compensatory and punitive damages to Paymaster. ABIC timely moved for a judgment notwithstanding the verdict ("JNOV") or, in the alternative, for a new trial, which motion was denied. ABIC appeals the denial of the motion and the underlying judgment. Although an indemnity claim by ABIC against United Commercial Insurance Service ("UCIS") remains to be litigated, we have appellate jurisdiction because the district court entered a final judgment pursuant to Fed. R. Civ. P. 54(b).

I.

ABIC contends it was entitled to a JNOV because Paymaster's damage evidence improperly attributed all of Paymaster's alleged damages to the actions of UCIS and ABIC despite substantial evidence of other factors causing its losses. ABIC contends that Paymaster's damage model failed to account for several factors unrelated to the alleged unfair competition conduct of UCIS and ABIC. This argument is principally grounded on *ILC Peripherals Leasing Corp. v. International Business Machs. Corp.*, 458 F. Supp. 423, 434-36 (N.D. Cal. 1978), *aff'd per curiam sub nom. Memorex Corp. v. International Business Machs. Corp.*, 636 F.2d 1188 (9th Cir. 1980), *cert. denied*, 452 U.S. 972 (1981).

The district court noted the substantial evidence which supported the verdict on causation and damages. Expert witnesses addressed each of the factors urged by

defendants, as well as other potential factors, and concluded that they did not adequately account for lost sales. To the extent that there was conflicting testimony concerning all of these factors and their effect on Paymaster's sales, the jury was entitled to resolve the conflict.

II.

As a separate challenge to denial of JNOV, ABIC argues that the damage verdict is speculative because Paymaster failed to allocate damages among its claims. ABIC relies again on *ILC*, 458 F. Supp. at 434, for this contention. Allocation of damages among the claims is not required where, as here, there is substantial evidence that the damages could only be caused by wrongful activity. *See Litton Sys., Inc. v. American Tel. & Tel. Co.*, 700 F.2d 785, 825 (2d Cir. 1983) (citing *ILC* and noting that "damage studies are inadequate when only *some* of the conduct complained of is found to be *wrongful* and the damage study cannot be disaggregated") (emphasis added), *cert. denied*, 464 U.S. 1073 (1984).

III.

ABIC argues that denial of JNOV was improper because evidence of actual confusion by only two lost Paymaster customers is insufficient evidence to support the jury's verdict on causation. However, there is substantial evidence in the record that the mailings caused the losses. *See Runge v. Lee*, 441 F.2d 579, 583-84 (9th Cir.), *cert. denied*, 404 U.S. 887 (1971).

In the instant action, the district court noted the difficulty of proof that "a customer, with no previous exposure to a product (Paymaster), would have purchased the product if his initial impression had not been shaped by false comparisons [from the blanket mailings]." In denying the motion for JNOV, the district court found there was substantial evidence of causation based on: (1) a damage study of sales patterns showing a "substantial deviation" from historical sales levels at the start of the damage period; (2) testimony of Paymaster chairman Robert E. Lewis, Sr., on actual customer confusion; (3) the negative effect on Paymaster sales from the UCIS mailings as noted by a Paymaster distributor and subdistributor; (4) the testimony of former customer William Carey; and (5) the testimony of Paymaster's expert witness, Dr. Gerald Ford. The district court correctly noted that "[i]t was the responsibility of the jury to evaluate the weight and credibility of the conflicting evidence on causation" and "not the function of the Court, on a motion for Judgment Notwithstanding the Verdict, to reweigh the evidence." *See Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1014 (9th Cir. 1985), *cert. denied*, 474 U.S. 1059 (1986). *See also Wilcox v. First Interstate Bank*, 815 F.2d 522, 524 (9th Cir. 1987); *William Inglis & Sons Baking Co. v. ITT Continental Baking Co. Inc.*, 668 F.2d 1014, 1026 (9th Cir. 1981), *cert. denied*, 459 U.S. 825 (1982). ABIC's arguments on appeal are unavailing to the extent they go to the weight of the evidence and credibility of the witnesses.

IV.

ABIC also appeals the denial of its motion for JNOV on the ground that Paymaster failed to establish a

"protected interest" which ABIC contends is required under section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). The Lanham Act, section 43(a), establishes a federal claim against "a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same." Along with the "eliminat[ion of] deceitful practices in interstate commerce involving the misuse of trademarks," this provision seeks "to eliminate other forms of misrepresentation which are of the same general character even though they do not involve any use of what can technically be called a trademark." *Federal-Mogul-Bowers Bearings, Inc. v. Azoff*, 313 F.2d 405, 409 (6th Cir. 1963) (quoted in *Smith v. Montoro*, 648 F.2d 602, 605 n.3 (9th Cir. 1981)). *See also L&L White Metal Casting Corp. v. Joseph*, 387 F. Supp. 1349, 1356 (E.D.N.Y. 1975) ("The purpose of [section 43(a)] was to create a new federal cause of action for false representation of goods in commerce in order to protect persons engaged in commerce from, among other things, unfair competition, fraud and deception which had theretofore only been protected by common law;" this federal protection extends to "other forms of misrepresentation and unfair competition not involving 'palming off.' ") (quoted in *Smith v. Montoro*, 648 F.2d 602, 604 (9th Cir. 1981)).

It is well-settled in our circuit that "registration of a trademark or service mark is not a prerequisite for recovery under section 43(a)." *Montoro*, 648 F.2d at 605. There was substantial evidence to support the Lanham Act claim that the direct mail solicitations contained false representations concerning the origin of the services offered. A jury could reasonably find from the evidence

that the invoice-designed document established a false impression that it originated from Paymaster. Paymaster was not required to establish the infringement of a "protected interest" in the nature of a trademark in order to support its section 43(a) claim. Because of the broad reading given to section 43(a) under prevailing case law, the district court properly denied ABIC's motion for JNOV.

V.

ABIC also appeals the denial of its motion for JNOV on the ground that the jury could not have found "likelihood of confusion," an essential element to a section 43(a) claim. *See, e.g., Accuride Int'l, Inc. v. Accuride Corp.*, 871 F.2d 1531, 1533-34 (9th Cir. 1989); *Clamp Mfg. Co. v. Enco Mfg. Co., Inc.*, 870 F.2d 512, 518 (9th Cir. 1989), *cert. denied*, 110 S. Ct. 202 (1989); *Levi Strauss & Co v. Blue Bell, Inc.*, 778 F.2d 1352, 1354 (9th Cir. 1985) (en banc).

We conclude that the jury verdict on this issue was supported by substantial evidence. In denying ABIC's motion for JNOV, the district court noted: (1) the expert testimony of Dr. Ford that the solicitations were intentionally designed to confuse; (2) the testimony of Paymaster customers of their actual confusion; (3) customer letters indicating their confusion; (4) the testimony of a former UCIS employee of the actual confusion indicated by 50% of those contacted by telephone sales calls; (5) the jury could find confusion likely in the method of marketing by soliciting on a form that appeared to be an invoice; (6) and that the jury may have placed greater credence in

the direct evidence of Paymaster than the circumstantial evidence of UCIS. We agree with these observations.

VI.

ABIC argues that the district court abused its discretion in excluding evidence that Paymaster violated certain state insurance laws. ABIC asserts that the damage award cannot be comprised of any profits resulting from this alleged unlawful conduct. For this contention, ABIC principally relies on *First Beverages, Inc. v. Royal Crown Cola Co.*, 612 F.2d 1164 (9th Cir.), *cert. denied*, 447 U.S. 924 (1980), an antitrust case. This argument that the evidence should have been admitted on this ground was not presented to the trial court.

It is well-settled that we will not consider arguments on appeal which were not raised before the district court, absent a showing of exceptional circumstances. *See, e.g., Villar v. Crowley Maritime Corp.*, 782 F.2d 1478, 1483 (9th Cir. 1986); *International Union of Bricklayers & Allied Craftsmen Local Union No. 20, AFL-CIO v. Martin Jaska, Inc.*, 752 F.2d 1401, 1404 (9th Cir. 1985). We find no such exceptional circumstances here.

VII.

ABIC appeals the denial of its motion for a new trial on punitive damages. The jury found ABIC liable for $2,361,000 in punitive damages on the state law claims. ABIC contends that the district court incorrectly applied one of the factors enumerated by the California Supreme Court in *Neal v. Farmers Ins. Exch.*, 21 Cal. 3d 910, 928, 148

Cal. Rptr. 389, 399 (1978), because the award was excessive in relation to ABIC's wealth.

A denial of a motion for a new trial is reviewed under the abuse of discretion standard. *Ah Moo v. A.G. Becker Paribas, Inc.*, 857 F.2d 615, 619 (9th Cir. 1988). An award of punitive damages will not be overturned "unless it appears that the jury was influenced by passion or prejudice." *Transgo*, 768 F.2d at 1024; *see also Neal*, 21 Cal. 3d at 927, 148 Cal. Rptr. at 399.

The California Supreme Court has enumerated three factors to be considered in the awarding of punitive damages: (1) the nature of the defendant's acts; (2) the amount of compensatory damages awarded; and (3) the wealth of the defendant. *Neal*, 21 Cal. 3d at 928 (cited in *Professional Seminar Consultants, Inc. v. Sino American Technology Exch. Council, Inc.*, 727 F.2d 1470, 1473 (9th Cir. 1984)).

ABIC contends that the district court failed properly to apply the *Neal* factors and, instead, created its own erroneous standard, holding that it would not remit the award because ABIC had failed to demonstrate that the size of the award would affect ABIC's ability to maintain its operation. As presented, this issue involves the third *Neal* factor concerning the wealth of the defendant. "Net worth generally is considered the best measure of a defendant's 'wealth' for purposes of assessing punitive damages." *Devlin v. Kearny Mesa AMC/Jeep/Renault, Inc.*, 155 Cal. App. 3d 381, 391, 202 Cal. Rptr. 204, 210 (Cal. Ct. App. 1984) (citation omitted).

The district court correctly noted that under California law the defendant has the burden of introducing

evidence concerning its financial condition in order to preserve a challenge to the amount of the award. *Vossler v. Richards Mfg. Co., Inc.*, 143 Cal. App. 3d 952, 964, 192 Cal. Rptr. 219, 226 (Cal. Ct. App. 1983). The district court found that ABIC did not present evidence of its present net worth, most current earnings, future earnings prospects, or the financial effect on the company of a damage award. Because ABIC failed to meet its burden under *Vossler*, the district court did not abuse its discretion in denying the motion for a new trial on punitive damages under ABIC's first argument. *See, e.g., Greenfield v. Spectrum Inv. Corp.*, 174 Cal. App. 3d 111, 124, 219 Cal. Rptr. 805, 813 (Cal. Ct. App. 1985).

ABIC also contends that the punitive damages award was excessive in relation to its wealth. The district court found the punitive damages award against ABIC "clearly large" but "not clearly excessive." As already noted, the record did not contain evidence of ABIC's current net worth.

We conclude that the district court did not abuse its discretion in denying the new trial, as there is no basis for finding that the district court abused its discretion by finding the punitive damages were not excessive.

We affirm the judgment and the order of the district court denying the JNOV and the motion for new trial.

AFFIRMED.

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

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| UNITED COMMERCIAL INSURANCE SERVICE, INCORPORATED, dba UNITED CHECKWRITER SERVICES; BURTON D. RAYDEN; JEFFREY L. RAYDEN; JOEL RAYDEN,<br><br>Plaintiffs-Appellees,<br><br>v.<br><br>THE PAYMASTER CORPORATION,<br><br>Defendant,<br><br>and<br><br>AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA, INC.,<br><br>Defendant-counter-claimant-Appellant. | No. 87-6020<br><br>D.C. No. CV-80-3780-PAR-8<br><br>*ORDER*<br><br>(Filed May 2, 1990) |

Appeal from the United States District Court
for the Central District of California

Before: HUG, CANBY, and BOOCHEVER, Circuit Judges.

The panel as constituted in the above case has voted to deny the petition for rehearing. Judges Hug and Canby have voted to reject the suggestion for a rehearing en banc, and Judge Boochever has recommended rejection of the suggestion.

The full court has been advised of the en banc suggestion and no active judge of the court has requested a vote on it. Fed. R. App. P. 35(b).

The petition for rehearing is denied and the suggestion for a rehearing en banc is rejected.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

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| UNITED COMMERCIAL INSURANCE SERVICES, INC., Plaintiffs, vs. THE PAYMASTER CORPORATION, Defendants. | CV 80-3780 PAR<br><br>MEMORANDUM OF DECISION AND ORDER (Filed Aug 12, 1986) |

Following trial to a jury defendants UCIS and ABIC have moved for judgment notwithstanding the verdict or in the alternative a new trial. Having considered the papers and argument of all parties, the Court denies the motions by both defendants on each ground asserted.

Judgment Notwithstanding the Verdict.

Judgment notwithstanding the verdict is proper only when the jury verdict is not supported by substantial evidence, when the evidence and inferences from it cannot reasonably support judgment in favor of the opposing party. *Transgo, Inc. v. AJAC Transmission Parts Corp.*, 768 F.2d 1001 (9th Cir. 1985).

A. False Designation of Origin

UCIS contends that a Judgment Notwithstanding the Verdict is appropriate because the evidence was insufficient to support a finding that UCIS infringed on a name,

mark, symbol or other protectible interest of Paymaster in the sale of its forgery insurance and mechanical service contract. Paymaster contends that Section 43(a) of the Lanham Act protects generally against false source association.

UCIS equates the prohibition of false designation of origin contained in § 43(a) with "passing off" which is defined in *Smith v. Montoro*, 648 F.2d 602, 604 (9th Cir. 1981) as "the selling of a good or service of one's own creation under the name or mark of another." It also cites a number of Ninth Circuit cases where "passing off" involved a mark, symbol or name that allegedly caused the confusion. *See, e.g., Levi-Strauss v. Bluebell, Inc.*, 778 F.2d 1352 (9th Cir. 1985); *Toho Co. Ltd. v. Sears, Roebuck & Co.*, 645 F.2d 788 (9th Cir. 1981); *New West Corporation v. NYM Co. of California*, 595 F.2d 1194 (9th Cir. 1979). However, in both *Montoro* and *U-Haul Int'l, Inc. v. Jartran, Inc.*, 681 F.2d 1159 (9th Cir. 1982) the Ninth Circuit specifically stated that § 43(a) is not limited to cases of palming off, and further that it is not necessary that the plaintiff prove mechandising practices "in the nature of . . . palming off . . . and/or misuse of trademarks and tradenames." *Montoro* at 604. The ultimate scope of § 43(a) has been left unresolved. *Jartran, Inc.*, 681 F.2d at 1161 n.3. However, " . . . the Congressional intent was to allow a private suit by a competitor that consists of lying about goods or services when it occurs in interstate commerce." *Id.* at 362, *quoting, Skil Corp. v. Rockwell International Corp.*, 375 F.2d 777 (N.D. Ill. 1974). In addition, "unlike prior law the Lanham Act is directed toward protecting the consumer as well as the competitor from false and deceptive [trade practices]." *Accord Allen v. National Video Inc.*, 610 F.Supp.

612, 625 (S.D.N.Y. 1985) (one interest to be weighed in determining scope of the Lanham Act is the interest of public to be free from harmful deception). Further, the Eighth Circuit has recently indicated that "the key to finding a violation under section 43(a) is a determination that the materials used by the defendant created a likelihood of confusion, deception or mistake on the part of the consuming public." *Toro Co. v. R & R Products Co.*, 787 F.2d 1208, 1214 (8th Cir. 1986).

In this case the jury was instructed that Paymaster needed to prove that "UCIS has attempted to sell its product by marketing practices which represent directly or indirectly that the product or service it was offering was produced by or associated with Paymaster," and that "UCIS marketing and sales practices have misled Paymaster customers into believing that UCIS's products are produced by or associated with those of Paymaster." This instruction comports with the language of § 43(a) as interpreted in this Circuit, and restricts a finding of liability to that behavior which causes customer confusion as to the origin of defendant's product. *Cf. Montoro*, 648 F.2d at 605.

UCIS also argues that the only similarities proven at trial were functional similarities, and that defendant's evidence of actual confusion and intent is insufficient to establish a likelihood of confusion. While functional similarities *alone* cannot be a valid basis for an unfair competition claim, *see Shakey's Inc. v. Covalt*, 704 F.2d 426 (9th Cir. 1983), all information relevant to the marketing of the product must be considered. *Id.* In this case, defendant's method of marketing the product – sending a solicitation that appeared to be an invoice, to plaintiff's customers –

is the basis for similarity. The use of a bill implies a previously established business relationship; whether the products were distinguished on account of the fact that Paymaster sold a machine as well as a warranty (which was sometimes referred to as "insurance"), whereas UCIS sold insurance only, was before the jury. Its conclusion that UCIS's marketing practices thereby caused a likelihood of confusion is not without support. *Levi Strauss*, 778 F.2d at 1361.

Paymaster introduced expert testimony (Dr. Ford) to the effect that the UCIS materials were intentionally designed to confuse the recipient and that Paymaster customers would likely believe that the materials came from Paymaster. Numerous Paymaster customers testified that they were confused by the UCIS solicitation form and thought they were dealing with Paymaster. Letters to UCIS, ABIC, and Paymaster also demonstrated customer confusion as to the source of the UCIS mailings. Former UCIS employee Naomi Lugo testified that 50% of the people she contacted during telephone sales calls believed they were dealing with Paymaster. UCIS was notified by state regulatory agencies that recipients of the solicitation materials responded in the belief they were dealing with Paymaster. Further, the testimony of Lugo established that UCIS personnel continued to foster the confusion in direct contact with customers, even after the confusion became apparent.

Although actual confusion is only one factor to be considered in determining likelihood of confusion, *see Levi Strauss*, 778 F.2d at 1360, it is clearly the most probative factor, particularly where the evidence of confusion comes directly from customers in the marketplace, and

not merely from survey evidence. *See Toro Co.*, 787 F.2d at 1215; *Cf. Levi Strauss*, 778 F.2d at 1360. Further, strong evidence of intent was adduced. UCIS points to circumstantial evidence that would militate against a finding that confusion existed or that it was the cause, such as an evaluation of the two products, and their marketing channels. UCIS also introduced evidence to establish that the source of confusion resulted from a belief, fostered by Paymaster, that its product was insurance. On the other hand there was testimony indicating that the cause for confusion had nothing to do with the warranty/insurance issue. The jury, after hearing all the evidence and argument, concluded that Paymaster's direct evidence outweighed the circumstantial evidence presented by UCIS. Substantial evidence exists to support the verdict, and its not the function of this Court to reweigh the evidence. *Cf. id.*

B. Actual Damage.

UCIS and ABIC contend that the Lanham Act requires proof of actual lost customers or sales as a prequisite [sic] for monetary relief, relying upon *Otis Clapp & Son, Inc.*, 754 F.2d 738 (7th Cir. 1985); *Johnson & Johnson v. Carter Wallace*, 631 F.2d 186 (2d Cir. 1980); and *Quabaug Rubber Co. v. Fabiano*, 567 F.2d 154 (1st Cir. 1977). However, to require a plaintiff to prove individually each customer sale actually lost would be inconsistent with the principle that the "wrongdoer bear the risk of uncertainty which his wrongdoing has created." *Id.* at 745.

Under the circumstances of this case (blanket mailing to potential Paymaster customers), it is difficult to

determine or prove directly whether a customer, with no previous exposure to a product (Paymaster), would have purchased the product if his initial impression had not been shaped by false comparisons. In such a situation, comparison evidence of historical and current sales figures, and percipient testimony establishing a change in consumer attitudes may be the *only* reasonable method of proving causation and damages.

Two recent District Court cases have squarely held that proof of actual diversion of sales is not required for a plaintiff to obtain relief under the Lanham Act. *Walt Disney Productions v. Filmation Associates*, 628 F.Supp. 871, 880 (C.D. 1986) ("proof of actual damages, including diversion of sales, is not required for a plaintiff to obtain relief under this section"); *U-Haul International v. Jartran, Inc.*, 601 F.Supp. 1140, 1150 (D. Ariz. 1984) ("the causation element of a disparagement claim is met where the evidence establishes that the disparging statements were a substantial factor in causing pecuniary loss. Plaintiff need not prove loss of specific customers"); *see Runge v. Lee*, 441 F.2d 579 (9th Cir. 1971), *cert. denied*, 404 U.S. 887 (1971) (proof of actual confusion, coupled with testimony of plaintiff that she lost customers and sales because of defendant's conduct sufficient).

Paymaster presented substantial evidence in support of its claim that UCIS marketing practices caused it damage. A damage study was introduced which articulated both the historical sales pattern and sales figures during the damage period, demonstrating that a substantial deviation from historical sales patterns began at the start of the damage period, and continued throughout the period of alleged UCIS tortious conduct. Also there was

substantial evidence of actual customer confusion of those who purchased the UCIS product believing its source was Paymaster. Paymaster chairman Robert E. Lewis testified that exposure to the UCIS solicitation materials and experience with the UCIS refund process had a "negative impact" on Paymaster customers, and turned customers off checkwriters. He also testified that UCIS comparison sheets left a negative impression on future customers and made future sales more difficult. In addition, he testified that based on his experience and familiarity with the business, no other factor contributed to the decline in Paymaster sales during the damage period.

Further, there was evidence from a Paymaster distributor and from a Paymaster subdistributor (George Sullivan and Bernard Levine) of their first-hand experience in the marketplace, and the effect of the UCIS materials on their sales. William Carey, a former Paymaster customer, testified that he ceased doing business with Paymaster because of the effect of the UCIS materials. UCIS contends that Carey's testimony should not be considered because he indicated that he was disillusioned with both Paymaster and UCIS, and thus UCIS was not the cause of the lost customer. However, the jury verdict implicitly supports the view that it was *UCIS* who caused the disillusionment through its unlawful practices, and thus the jury could consider his testimony as direct evidence of lost sales. Finally, Paymaster introduced the expert testimony of Dr. Ford based on his analysis of a survey on the impact of the UCIS solicitation materials on Paymaster and non-Paymaster customers and his review

of randomly selected UCIS cancellation files; he concluded that the decline in sales was caused by the activities of UCIS and ABIC.

Unlike *Otis Clapp*, where the *only* evidence was plaintiff's mathematical projection and there was none of customer confusion, in this case the evidence included percipient and expert testimony establishing defendants' activities as the source of the decline in sales and of actual confusion of customers. It was the responsibility of the jury to evaluate the weight and credibility of the conflicting evidence on causation. In light of the substantial evidence in the record supporting a finding of causation, it is not the function of the Court, on a motion for Judgment Nothwithstanding the Verdict, to reweigh the evidence. *See Transgo*, 768 F.2d at 1014.

Nor does *Erlich v. Etner*, 224 Cal.App.2d 69, 75 (1964), upon which defendants rely, compel a different result. *Erlich* stands for the proposition that in cases of trade libel, general damages are not presumed, and must be proven. Although it quotes a portion of *Prosser on Torts* that states that *in the usual case*, the plaintiff must establish the particular purchasers who have refrained from doing business with him to recover, the case does not purport to adopt the standard as the law in California, and the actual holding of the case belies such an interpretation. The Court in *Erlich* was concerned that defendant offered no proof as to any specific sum of net profits that were alleged to be lost. Paymaster adduced evidence establishing specific net profit figures for the relevant time periods. Further, much of Paymaster's business and thus, its damage, related to an inability to make future sales, which are particularly difficult to prove. Paymaster

provided evidence of consumer reaction to UCIS materials, the firsthand experience of sales personnel, and a specific articulation of its net losses. The jury could appropriately find causation of damage based on that evidence.

C. False Advertising.

UCIS contends that Paymaster failed to prove that statements made by UCIS in its solicitation materials or brochures about UCIS's products (its policy insures savings accounts and that there is an employee exclusion) are misleading. However Dr. Ford testified, based on both his consumer study and his experience as a marketing expert, that the UCIS solicitation and comparison sheets were in fact misleading and likely to mislead the public. In addition, an inference of intent to deceive can be drawn from ABIC's attempts to have UCIS describe the employee exclusion in its mailings. UCIS's challenge to Paymaster's evidence, particularly Dr. Ford's study, is directed to the weight given it by the jury and ought not to be revaluated on this motion. *Transgo*, 768 F.2d at 1040; *William Inglis & Sons Baking Co. v. ITT Continental Baking Co.*, 668 F.2d 1014, 1026 (9th Cir. 1981), *cert. denied*, 459 U.S. 825 (1982).

D. Disparagement.

UCIS contends that there was insufficient evidence to prove that UCIS's alleged disparaging statements (that Paymaster would not honor its warranty, and that a "loss which is covered by a warranty is subject to legal and court processes;" that Paymaster employed "fraudulent

sales routines" and "bilked" its customers by selling them used machines as new; and that Paymaster sold its customers unnecessary equipment) were in fact false. There is no dispute that the statements were made, and published.

With respect to the former, Paymaster's chairman testified that no valid claims had been denied. Testimony to the same effect from the deposition of Chester Johnson was read into the record. In its Reply UCIS argues that the 1973 decision of the Louisiana Court of Appeal in *Lee v. Paymaster Corporation* establishes the truth of the assertion. However, the opinion in that case was not offered into evidence; further, as it was rendered prior to the damage period in this case its relevance would be marginal. Jeffrey Rayden conceded on cross-examination that he had no knowledge of whether Paymaster had ever denied a valid claim.

Lewis also testified to the falsity of the other two charges made by UCIS. Although UCIS points to the testimony of Herbert Muller and argues that it was neither impeached nor rebutted, cross-examination of Muller revealed areas of possible bias against Paymaster on which the jury could reasonably rely in assigning weight to his testimony. Credibility was clearly an issue, which the jury resolved in Paymaster's favor.

E. Joel Rayden.

Joel Rayden argues that he was never served with a summons and counterclaim and thus under Fed.R.Civ.P. 4(a) was not properly tried in this action, nor was there

evidence proving his involvement in UCIS's alleged unlawful conduct.

On May 7, 1984 counterclaim defendant Joel Rayden appeared in this action and answered Paymaster's First Amended and Supplemental counterclaim. The answer was signed on Joel Rayden's behalf by Roger A. Parkinson of Parkinson, Wolf, Lazar & Leo. No procedural defenses were raised, such as lack of personal jurisdiction, insufficiency of process or insufficiency of service of process. Pursuant to Fed.R.Civ.P. 12(h) these defenses were waived and Joel Rayden is properly a party to this action.

The evidence establishes that Joel Rayden is an officer, director and shareholder of UCIS. Further, he is a licensed insurance agent working for UCIS, is a marketing manager, and is involved in the company's sales activities. On direct examination Lugo testified that her supervisor Kim Gregory instructed her that during sales calls she was to foster the belief in new UCIS customers that UCIS was connected to Paymaster, that Joel Rayden was Gregory's supervisor, and that she believed that her instructions were consistent with those given Gregory by Joel Rayden. On cross-examination, Lugo admitted she had never overheard such instructions from Joel Rayden, but rather based her belief on Joel Rayden's role as marketing manager.

A corporate officer or director is personally liable for all torts which he authorizes or directs or in which he participates, even if he acted as an agent of the corporation and not on his own behalf. *Transgo*, 768 F.2d at 1021. Based on Joel Rayden's ownership and managerial role in

a close corporation, it was not unreasonable for the jury to infer that he was aware of, and participated in the tortious activity.

New Trial

A motion for a new trial may only be granted if the veridict is against the great weight of the evidence or it is clear that the jury has reached a seriously erroneous result. *Digidyne Corp. v. Data General Corp.*, 734 F.2d 1336, 1347 (9th Cir. 1984). The decision to grant a new trial is discretionary, and the Court should deny a motion for a new trial unless there has been a prejudicial defect in the proceedings. *Chalmers v. City of Los Angeles*, 762 F.2d 753, 761 (9th Cir. 1985).

A. Punitive Damages.

Both UCIS and ABIC contend that a new trial, or alternatively a remittitur, is required because the awards of punitive damages, $3 million and $2.361 million respectively, are extreme and unjustified as a matter of law, and a result of passion and prejudice.

Three elements must be considered in determining whether a particular award of punitive damage is appropriate: (1) the nature of defendant's acts; (2) the amount of compensatory damages; and (3) the wealth of the defendant. *Neal v. Farmers Ins. Exchange*, 21 Cal.3d 910, 928 (1978). The burden of producing evidence of financial condition is on the defendant. *Vossler v. Richards Manufacturing Co.*, 143 Cal.App.3d 952, 964 (1983); *Clark v. Bunker*, 453 F.2d 1006, 1012 (9th Cir. 1972); *El Ranco, Inc. v. First*

*National Bank of Nevada*, 406 F.2d 1205, 1218 n.18; *see also Tri-Tron International v. Velto*, 525 F.2d 432, 438 (1975); *accord West v. Johnson & Johnson Products, Inc.*, 220 Cal.Rptr. 437 (1985); *Greenfield v. Spectrum Inv. Corp.*, 219 Cal.Rptr. 805 (1985).

California courts have developed no precise formula for the calculation of punitive damages. *Devlin v. Kearny Mesa AMC/Jeep/Renault, Inc.*, 155 Cal.App.3d 381, 388 (1984). An award is improper where the recovery is so grossly disproportionate as to raise a presumption of passion or prejudice. *Betts v. Allstate Ins. Co.*, 154 Cal.App.3d 688 (1984). Further, a punitive damage award that causes financial ruin may not be upheld. *Transgo, Inc. v. AJAC Transmission Parts Corp.*, 768 F.2d 1001 (9th Cir. 1985), *cert. denied*, 106 S.Ct. 82 (1986); *see Devlin*, 155 Cal.App.3d at 391 (award not excessive when it would not unduly interfere with operations of the defendant).

UCIS

There is no serious question that the relationship of the punitive damage award to the $5.5 million compensatory damage award is grossly disproportionate. However UCIS strenuously urges that the ratio of the award to its net worth and to its net earnings is such that it would be caused financial ruin.

UCIS did not introduce any evidence of its net worth at trial. The evidence in the record of UCIS's net earnings over the damage period indicates that its average pretax income for the period from 1977-1985 was $129,437. This amounts to approximately $1.15 million in earnings over the relevant period (without adjustment for the time

value of money). If the evaluation of the appropriate amount of punitive damages were based solely on the net earnings of UCIS, a $3 million punitive damage figure would appear to be excessive. *Cf. Devlin,* 155 Cal.App.3d at 392; *Pistorious v. Prudential Ins. Co. of America,* 123 Cal.App.3d 541, 557 (1981). However there is no rule that a lack of earnings during a damage period insulates a company from a punitive damage award; a company may possess a large net worth, or have sufficiently bright future prospects that a punitive damage award in excess of net earnings over a damage period will not unduly interfere with the operations of the defendant and provide the proper level of "punishment."

The decision not to introduce evidence of net worth was made by UCIS. Post-trial and for purposes of this motion only, UCIS has submitted the declaration of Dr. Barbara Luna who states that the net worth of UCIS is approximately $180,000. Having not been offered at trial, Paymaster has had no meaningful opportunity to respond. No more was there any evidence offered at trial as to the ability of UCIS to pay any damage award, or the specific impact that payment of a particular sum on the future operations of the company would have. Thus, there was no basis in the record for the jury (or now the court) to evaluate the effect of a punitive damage award on the future operations of the company. While the California courts have recognized that the absence of evidence of defendant's wealth makes it difficult for a jury rationally to fulfill the purpose of punitive damages – the punishment and deterrence of wrongdoing – they have squarely placed the burden on the wrongdoer to "demonstrate at *the trial level* that a particular award of punitive

damages will exact too great a penalty because of its financial condition." *Vossler,* 143 Cal.App.3d at 965; *Greenfield v. Spectrum Inv. Corp.,* 219 Cal.Rptr. 805, 813. The Ninth Circuit rule is to the same effect. *Clark; El Ranco.*

The rule makes sense as a matter of policy in this case. Although I recognize that the plaintiff can obtain a great deal of relevant information through discovery, the defendant is in the best position to provide accurate data concerning its financial condition. The defendant has incentive to maximize impact and minimize the award. Further, to permit a defendant to sit back without having introduced any evidence tending to provide a ceiling during trial, particularly a multi-week trial, only to do so to the judge thereafter, is to encourage defendants to roll the dice in a way which does not comport with the fair or efficient administration of justice. *See Vossler,* 143 Cal.App.3d at 965; *Greenfield.* As a corollary, the *failure* of a defendant to provide financial information should bar a later argument that a particular level of punitive damages has exacted too great an impact on the operation of the company. *See id.*

What makes this a tougher question is the presence in this case of *partial* financial information (net earnings only). Based solely on the ratio between the award and net earnings, the award plainly exceeds any that has heretofore, been approved by a California appellate court. *See* cases discussed in *Devlin.* At the same time, because UCIS is a family-owned enterprise, net earning is a particularly unhelpful, possibly misleading, indicator. Net worth is generally considered to be the best measure of a defendant's wealth for evaluating punitive damages, *see Devlin,* 202 Cal.Rptr. 202, 210; other figures such as

asset value and borrowing capacity are also relevant. *See Pistorius*. There was no indication at trial that such data was unavailable. The defendant, having chosen not to provide the jury with sufficient financial information for it to make a completely informed decision, must assume the consequences of its tactical decision. *See Zarcone v. Perry*, 572 F.2d 52, 56 (2d Cir. 1978) ("the decided cases and sound principle require that a defendant carry the burden of showing his modest means – facts peculiarly within his power – if he wants this considered in mitigation of damages.")

One of the consequences is that the court – as was the jury – is left without a fallback position. One possibility is a remittitur in the range of $1 million, on the theory that that would be slightly less than the net earnings of UCIS over the damage period. However under the circumstances I have a serious doubt that a net earnings figure accurately reflects the health of the company or the value of its earnings to the owners, who were found by the jury to be responsible for the wrongdoing in this case; in any event there is no articulable reason why $1 million shocks the conscience more or less than $3 million. *Id.* Another possibility would be $45,000 as an approximation of the maximum ratio approved by a California court up until now. No more than any other arbitrary figure, however, is this a rational award based on the evidence, or substantiated effect on the future operations of the company.

Therefore, while a punitive damage award greatly disproportionate to a defendant's net worth is "presumptively based upon passion or prejudice," *Merlo v. Standard Life and Acc. Ins. Co.*, 59 Cal.App.3d 5 (1976), such an assumption may not properly be endulged when the

defendant has chosen not to present sufficient financial information for the jury to evaluate. *Cf. Vossler,* 143 Cal.App.3d at 965.

ABIC

ABIC contends that the award of punitive damages against it was not justified by the evidence, and further, that if the award is justified by the evidence, the amount is excessive.

To be entitled to an award of punitive damages against ABIC, Paymaster had to show that ABIC was guilty of malice, that is that it acted with a conscious disregard of the rights of Paymaster. "Malice in fact is not presumed but may be proved either by direct evidence of declarations or by inferences drawn from acts and conduct." *Kim v. Chinn,* 56 Cal.App.2d 857 (1943).

ABIC acknowledges that it renewed the agency agreement with knowlege of customer complaints that the UCIS solicitation form looked like a bill and that a number said they believed that the solicitation was from Paymaster. ABIC contends that decision – even if deemed erroneous by the jury – does not warrant a finding that ABIC acted in bad faith. ABIC further argues that any reference in ABIC internal memoranda to actions it might have contemplated taking against Paymaster in front of state regulatory agencies could not properly be a basis for an award of punitive damages, because the actions would have been privileged under Civil Code § 47(2).

Although statements made by ABIC before regulatory agencies would be privileged under § 47(2), *see Ribas*

*v. Clark*, 38 Cal.3d 355, 364 (1985), an internal memorandum itself is not; to the extent it reflects the knowledge and state of mind of ABIC, it is relevant to the issue of malice.

The evidence adduced at trial supports a punitive damage verdict. There is evidence indicating that ABIC executives knew about the UCIS customer complaints, but conducted no independent investigation. Prior to the negotiation of its second agency agreement with UCIS, ABIC knew that Paymaster claimed that UCIS's marketing practices were unlawful. ABIC sought, and received a general indemnity provision in the agreement specifically to include the Paymaster litigation. This would support an inference that ABIC believed the Paymaster claims had merit. Further, the "14 point" recommendations of an ABIC in-house counsel evince an ABIC awareness of the potential damaging effect of the UCIS solicitation. ABIC had some power to require UCIS to change its marketing practices, but chose not to, and additionally increased its share of the insurance premium and required UCIS to reimburse it for in-house attorney time spent resolving charges of improper sales practices. As a matter of law the "protection of unwary consumers from being duped by unscrupulous sellers is an exigency of the utmost priority in contemporary society." *Devlin*, 155 Cal.App.3d at 390. The evidence in this case, and the reasonable inferences that can be drawn from it, support the jury conclusion that punitive damages were appropriately assessed because ABIC acted in conscious disregard of Paymaster's rights.

The punitive damage award against ABIC was $2.361 million. With respect to the amount, ABIC contends that

the award against it is excessive; and that if the Court reduces the award against UCIS, the punitive damage award against it must be proportionally reduced. Evidence adduced at trial indicates that from 1979 to 1983, ABIC had total earnings of over $20 million. The range in earnings was from a high of $11.7 million in 1981 to a loss of $2.4 million in 1980. No evidence was presented as to ABIC's net worth. Further, no information was adduced as to ABIC's most current earnings, nor was any evidence presented as to future earnings prospects, or the financial effect on the company of any particular damage award. The punitive award amounts to approximately 20% of ABIC's earnings in its best year, approximately 55% of ABIC's average annual earnings, and approximately 9% of its earnings over the four year period. From this information alone, it is difficult for both the Court and jury to make a rational determination of what will be the effect of a punitive damage award on the ability of the company to maintain its operations. The burden was on ABIC to supply that information, *Vossler,* 143 Cal.App.3d at 965; *Clark,* and its failure to do so inhibits its ability at this stage to contend that the award is excessive, and the court's ability to evaluate such a contention.

The award is clearly large in relation to the amounts awarded in other California cases, but also is not clearly excessive. *See Devlin,* 155 Cal.App.3d 392 (17.5% of net worth, or 4 months annualized net profit not excessive). One third of the average annualized profit of ABIC for a year would be approximately $1.3 million. One third of the profits of the largest year would be almost $4 million. While ABIC argues that the award is also disproportionate based on the small profits it made from the sale of

forgery bonds, and its "relatively passive" role in the business, the culpability of ABIC was for the jury to determine, and the evidence adequately supports a punitive damage award. ABIC cites no authority that in determining the appropriate level of punitive damages the jury must focus on the profits attributable to the particular business activity in question; rather the proper focus is on the overall wealth of the defendant.

ABIC's argument that if the Court reduces UCIS's award, it would reduce the punitive damages awarded against it proportionally, is mooted. In any event the appropriate award could only be determined based on an independent evaluation of the affected defendant's wealth. *Cf. Bindrim v. Mitchell*, 92 Cal.App.3d 61, 82 (1979).

B. Attorney Misconduct.

UCIS and ABIC further argue that a new trial is required because the closing argument of Paymaster was improper due to: (1) a reference to the assets and net worth of American Bankers Insurance Group; (2) a failure to refer to financial information of UCIS; and (3) reliance on the testimony of Dr. Helen Deal in connection with punitive damages. UCIS offered no objection to any of these statements (or non-statements) at trial.

Failure of counsel to present a contemporaneous objection to attorney misconduct during summation, or provide an adequate explanation for the failure to object, precludes a post-trial complaint. *Kaiser Steel Corp. v. Frank Coluccio Const. Co.*, 785 F.2d 656, 658 (9th Cir. 1986); *Martell v. Boardwalk Enterprises, Inc.*, 748 F.2d 740, 748 (2d

Cir. 1984); *Grimshaw v. Ford Motor Co.*, 119 Cal.App.3d 757, 791 (1981). Nothing in this case prevented UCIS or ABIC from raising these issues before the jury began its deliberations. An objection would have allowed the Court to consider the alleged prejudice and admonish counsel or issue a curative instruction, if appropriate. *Kaiser Steel Corp.*, 785 F.2d at 658.

Both UCIS and ABIC complain that Paymaster improperly focused on the assets and net worth of American Bankers Insurance Group (ABIG), as opposed to ABIC – the defendant in this case, which is merely a part of ABIG. However, the evidence and argument at trial indicates both that it was ABIC that first referred to ABIG, and described its structure and operations, and that the jury was given sufficient evidence adequately to distinguish between the defendant ABIC and ABIG. Further, the jury instructions specifically identified ABIC as the defendant in this case, not ABIG. Having first raised the issue of whether it was part of a larger group of insurance companies, ABIC cannot now complain that Paymaster adduced evidence as to financial strength of the Group. The jury instructions also clearly indicated that a *defendant's* ability to pay punitive damages is to be considered in arriving at the correct amount. If ABIC believed that, based on Paymaster's closing argument, the jury could not adequately distinguish between ABIC as a defendant and ABIG, an objection to the Court, followed by a further limiting instruction, might have been proper. However, in light of the clear evidence at trial distinguishing ABIC and ABIG, the jury instructions, and counsel's failure to object, there is no basis upon which to conclude that a new trial is warranted.

Defendants also argue Paymaster's reference in its closing argument to Dr. Helen Deal and other UCIS customers who were "defrauded" by UCIS's conduct was improper because the testimony of such customers was subject to a limiting instruction. No objection was made by defendants, no request was made for a further limiting instruction, and no explanation is offered why an objection was not made. *Kaiser Steel Corp.*, 785 F.2d at 658. It was appropriate for the jury to consider the number of people affected by defendant's conduct; malicious conduct affecting a single individual is less reprehensible than conduct affecting thousands of persons. *Grimshaw*, 119 Cal.App.3d at 820-21; *cf. Wayte v. Rollins Intern., Inc.*, 169 Cal.App.3d 1, 22 (1985). To the extent that UCIS's tortious conduct against Paymaster affected other individuals, it is not inappropriate for a jury to consider the harm to these other individuals in fashioning a punitive damage award. *Id.* To the extent that UCIS or ABIC was concerned that Paymaster's argument would lead the jury inappropriately to consider UCIS conduct toward its customers in awarding punitive damages, the proper avenue would have been an objection and a limiting instruction. In light of the limited potential for unfair prejudice in the closing argument, and UCIS and ABIC's failure to object, a new trial is not warranted on this ground. *Kaiser*, 785 F.2d at 568.

C. Cancellation Files.

UCIS argues that Paymaster's use of customer cancellation files and refund requests was cumulative and unfairly prejudicial to defendants and requires granting a new trial. UCIS does not point to any specific use of a

cancellation file or refund request that was improper, but rather contends that the emphasis placed on the evidence by Paymaster during trial was unfairly prejudicial and rendered the Court's limiting instructions ineffective.

A limiting instruction on the refund requests was given; it specifically stated that the evidence could be considered by the jury "for the purpose of showing the state of mind of these customers and that defendants had knowledge of what some customers said about confusing UCIS's application with an invoice." In addition the jury was instructed that "statements and conduct by UCIS in connection with customer cancellations or attempts to cancel may be considered for any purpose." Evidence with respect to refund requests was relevant on UCIS's knowledge and intent relating to the alleged deceptive nature of its marketing materials. In addition, there was value to presenting the evidence directly to the jury rather than merely presenting it in summary form. Both the *nature* and number of customer complaints and cancellations is relevant to determining whether UCIS was acting with tortious intent. Thus, evidence establishing that UCIS was aware that a variety of different individuals, in different parts of the country, in different businesses were confused by the invoice would carry a different weight to a trier of fact on the issue of intent than a mere numerical figure. Similarily, questioning of the defendants about their attitude and response to the complaints and cancellations represents direct evidence as to their intent, and is also clearly probative. In light of the relevance of the evidence, the fact that no specific improper use of the evidence is cited, and the limiting

instructions which were given, there is no basis for concluding that introduction of the evidence unfairly prejudiced UCIS or ABIC.

The trial court is vested with broad discretion to make such evidentiary rulings to accomplish a fair trial. *Campbell Industries v. M/V Gemini*, 619 F.2d 24 (9th Cir. 1980). *White v. Cohen*, 635 F.2d 761 (9th Cir. 1981), relied upon by UCIS, is inapposite; in that case the prejudicial material was entirely inadmissible, could have been excised, and reached the jury because of deliberate misconduct of counsel. None of these factors is present in this case.

D. Regulatory Agencies.

UCIS and ABIC argue that Paymaster used correspondence between UCIS and ABIC and state insurance commissioners for purposes beyond those identified in the Court's limiting instruction, which was that the correspondence could be utilized for the limited purpose of showing that defendants had notice of the regulatory proceedings. UCIS argues that Paymaster devoted undue attention to the subject and further, in closing Paymaster's counsel argued that the correspondence showed that UCIS and ABIC were involved in a "cover-up." No objection was made to the remarks in closing argument, and no explanation is offered why an objection was not contemporaneously made. *Kaiser Steel Corp.*, 785 F.2d at 658. Paymaster contends that the remarks in closing argument were not made for the impermissible purpose of establishing liability on the part of UCIS or ABIC, but rather to

rebut the argument, offered by UCIS, that the UCIS application forms had been approved by every state where UCIS operates and that all the regulatory proceedings were prompted by Paymaster. To the extent UCIS and ABIC attempted to utilize the regulatory proceedings to rebut the conclusion that the invoices were misleading and to establish Paymaster as the source of the confusion, it was not improper for Paymaster to characterize the evidence in a different light. Further, there is no basis for concluding that the Court's limiting instruction was ineffective.

E. Exclusion of Rosenfield Deposition Testimony.

During trial UCIS moved to have certain testimony of a Paymaster expert, Dr. Rosenfield, admitted as a party admission. Rosenfield had been designated by Paymaster in connection with UCIS's affirmative case, and subsequently withdrawn upon settlement of those matters. Rosenfield had not previously been identified as an expert witness on UCIS's behalf, and no narrative statements had been filed by UCIS. In addition, Rosenfield's deposition, taken prior to the settlement of UCIS's affirmative case, had not been lodged in a timely manner. UCIS first attempted to include Rosenfield on its late filed witness list, but Paymaster's objection to the expert witness designation was sustained based on non-compliance with Local Rule 9.

UCIS then attempted to introduce portions of his cross-examination where he testified that Paymaster is a business in decline, manufacturing an obsolete product in a declining market. UCIS relied upon *Collins v. Wayne*

*Corp.*, 621 F.2d 777 (5th Cir. 1980) for the proposition that it is error not to admit statements of an expert retained by a party's adversary during a deposition as admissions by an agent of a party. However, the holding is narrower than articulated by UCIS. *Collins* supports the proposition that the deposition testimony of an expert witness on a matter within his assignment as an expert is not hearsay under Fed.R.Evid. 801(d)(2). The burden of establishing that an agency relationship exists, and that the statement concerns a subject within the scope of his agency, is with the proponent of the testimony. *Bostick Oil Co. v. Michelin Tire Corp., Com. Div.*, 702 F.2d 1207, 1221 (4th Cir. 1983), *cert. denied*, 104 S.Ct. 242 (1984).

Rosenfeld was retained as a direct mail marketing expert and was designated to testify concerning the direct mail industry in general and UCIS's direct mail procedures in particular. Testimony on the state of Paymaster's business, and whether its product is obsolete, was not shown to be within the scope of his agency and thus properly admissible under *Collins*. *Cf.* 4 Weinstein & Berger, *Weinstein's Evidence* ¶801(d)(2)(C)[01]. In addition, to permit introduction of the evidence as a party admission would contravene the requirements of Local Rule 9 and the Court's exclusion of evidence not properly identified or exchanged under that Rule. Finally, UCIS had the opportunity to introduce other evidence in support of its assertion on the state of Paymaster's business.

F. Videotapes.

UCIS asserts that exclusion of videotapes of mock sales sessions was error. The Court's ruling excluding the

tapes was premised on Rules 402 and 403. The tapes as a whole were misleading and contrived. The material in the tapes was not probative on the point for which they were offered – that Paymaster was the source of confusion of the products. However, UCIS was permitted to offer testimony concerning the mock sales session witnessed by Jeffrey Rayden, and was permitted to read a portion of the James Scorpio transcript, which UCIS argued showed Scorpio suggesting that a customer write to UCIS to cancel. Thus, UCIS was permitted to present relevant points contained in the materials.

G. Cross-Examination regarding Burt Rayden.

During examination by UCIS's counsel, UCIS president Jeffrey Rayden testified that he attended a mock Paymaster sales session staged by UCIS and that he took offense that, during the session, the Paymaster subdistributor said Burt Rayden was a thief. On redirect examination Paymaster's counsel asked Jeffrey Rayden whether it was true that his father was indicted in the mid-70's for theft of a checkwriter from a customer, and that he pleaded *nolo contendre*. Rayden answered not that he knew of. After the series of three questions and answers, UCIS requested a sidebar conference and moved to strike the testimony for lack of foundation. At no time did counsel object or move to strike based on Fed.R.Evid. 609.

Rule 609 governs the use of prior convictions for the purpose of impeaching a witness. UCIS argues that the use of the expunged misdemeanor was improper under Rule 609(b), which governs the use of convictions over

ten years old, and Rule 609(c) which governs the use of convictions subject to a pardon, annulment or equivalent procedure. Paymaster argues that its questions regarding Burt Rayden's nolo plea were made to test the honesty of Jeffrey's description of his reaction to the characterization of his father as a thief. UCIS first interjected this issue through Jeffrey Rayden's testimony. Thus, Paymaster's theory of relevance is independent of Rule 609. There is nothing in Rule 609 which prohibits the use of prior convictions, if relevant, for purposes other than impeachment of a witness, if the requirements of Rule 403 are satisfied. *Cf. Czajka v. Hickman*, 703 F.2d 317, 319 (8th Cir. 1983).

UCIS contends that the purpose of the questioning was to plant in the jury's mind that Burt Rayden was a convicted felon and thus cause unfair prejudice. However, it is not possible to find unfair prejudice in this case; Paymaster merely asked Jeffrey Rayden to acknowledge his father's arrest and nolo plea. No undue emphasis was placed on the topic; nor was any mention made of it in closing argument. Jeffrey Rayden answered the questions in the negative; no further evidence was elicited. The jury was carefully instructed at numerous times that the statements and questions of counsel were *not* evidence. There is no basis for concluding that the jury would disregard the clear instruction of the Court.

H. Compromise Verdict.

UCIS argues that a new trial is necessary because the damage award "smacks of a compromise." UCIS points to

three items to support its claim that the jury compromised on a verdict: (1) lengthy jury deliberations (four days after seven weeks of trial); (2) hotly contested issues of liability and causation; and (3) the final verdict was almost exactly 10% of the damages requested by Paymaster's counsel in closing argument.

These factors do not support UCIS's argument that a compromise verdict was reached. The case cited by UCIS, *Mekdeci v. Merrell Nat'l Laboratories*, 711 F.2d 1510, 1514 (11th Cir. 1983) requires both an insufficient damage award, and the presence of other evidence supporting a finding of compromise before a new trial may be justified. UCIS does not contend that the damage award is indefensibly small, but rather that it is smaller than that requested by Paymaster. Further, the trial was seven weeks long, with a large number of exhibits; thus, four days of deliberations is not excessive and does not suggest a compromise verdict. There is no evidence that would indicate the possibility of a deadlock. In *Mekdeci* the jury sent several communications indicating uncertainty over the central issue of causation; in addition the jury attempted to qualify its verdict. Next the jury announced it was deadlocked, and a verdict was only reached after a modified *Allen* charge. *Id.* at 1513. None of these factors is present in this case. Further, the damage figure is not an exact percentage of any damage figure requested by Paymaster. Accordingly neither of the considerations involved in *Mekdeci* is present here.

I. Jury Instructions.

ABIC argues that it was error for the Court not to instruct the jury that to the extent that Paymaster fostered

a belief in its customers that its warranty was insurance, this was illegal, and that if the jury found that it contributed to customer confusion Paymaster's claim would be barred. The instructions clearly stated that the jury could consider whether Paymaster's sales practices caused or contributed to the damages it was seeking. In addition, defendants actually argued that the warranty/insurance confusion, which they attributed to Paymaster, was in fact responsible for the injury Paymaster suffered. Thus, defendants were only denied an opportunity to argue the *illegality* of Paymaster's conduct. The only relevant issue was whether the conduct itself caused the confusion; the legality or illegality of the conduct would not affect whether it was a source of confusion.

ABIC also argues that the Court's failure to instruct the jury that it could consider defendant's profits as a factor in arriving at a damage award constitutes error. However, at no time did ABIC request such an instruction. On March 31, 1986, ABIC submitted (untimely) alternative damage instructions. These instructions proposed two modifications to Paymaster's timely filed instructions. The first was to delete the paragraph instructing the jury that the fact that the precise amount of damages may be difficult to measure should not prevent Paymaster's recovery. This language was a correct statement of the law and was properly included. *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 745 (7th Cir. 1985).

ABIC also inserted a statement that the jury may take into account the profits made by defendants in arriving at a damage award, and further stated that the jury could decide to award Paymaster only an accounting if the jury

determined that it was the most equitable means of calculating damages. The language of the statute as to damages is in the conjunctive. Subject to the principles of equity, the Lanham Act allows the successful litigant to recover: "defendant's profits; (2) any damages sustained by the plaintiff and (3) costs of the action." 15 U.S.C. § 1117. *Otis Clapp & Son, Inc.*, 754 F.2d at 744. To specifically single out defendant's profits as a proper award is improperly suggestive of a particular award. No case cited by ABIC stands for the proposition that if plaintiff adequately proves damages, but the damages exceed the profits of the defendants, then it is more appropriate to only award the defendants' profits.

Further, when the instructions were reviewed by counsel at the conclusion of the trial, ABIC did not request inclusion of a reference to ABIC's profits or express an objection to the instructions as given. The jury was instructed to provide fair compensation for all damage proximately caused by the conduct of defendants. ABIC offers no authority that, under the Lanham Act, an injured plaintiff is not entitled to fair compensation for injuries proximately caused by a defendant's illegal acts. In closing argument ABIC's counsel specifically told the jury to consider ABIC's profits in determining the appropriate level of damages; the instructions would permit the jury to consider such an argument in determining the "fair" level of compensation. Thus, any error, if made, was not unfairly prejudicial, particularly in light of ABIC's failure to propose an alternative instruction. *See Freddie Maddox v. City of Los Angeles*, slip op (9th Cir. June 26, 1986).

Attorneys' Fees

Paymaster contends that it is the prevailing party on its § 43(a) claim, and that this is an "exceptional case" sufficient to warrant the awarding of reasonable attorneys' fees pursuant to the remedial provisions of the Lanham Act § 35, 15 U.S.C. § 1117.

*Transgo, Inc. v. AJAC Transmission Parts Corp.*, 768 F.2d 1001 (9th Cir. 1985) is the leading Ninth Circuit decision, holding that the remedial provisions of section 35 apply to actions under section 43(a), at least with respect to attorneys' fees. *Id.* at 1025-1026; *cf. U-Haul Intern.*, 601 F.Supp. at 1151 (awarding attorneys' fees without discussion in false advertising case). *Transgo* involved the infringement of an unregistered trademark. The Court noted that Congress clearly had spoken and intended the recovery of attorneys' fees in registered trademark cases, and that there was no reason to distinguish between registered and unregistered trademarks because the type of conduct sought to be deterred is "unrelated to the type of *intellectual property* protected." *Id.* (emphasis added). The Court further noted that it would be anomalous to provide for attorneys' fees in copyright actions, registered trademark actions and patent actions, but not in unregistered trademark actions. *Id.* This underlying rationale does not extend easily to this case. The interest being protected here is the public's interest against deceit and confusion – not the protection of any form of intellectual property. This case is much more in the nature of a simple tort. Further, in light of the "American Rule" that successful litigants are not entitled to recover attorneys' fees absent statutory authorization or contract, *see Perry v. O'Donnell*, 759 F.2d 702, 704 (9th Cir. 1985), it would be

inappropriate to read *Transgo* broadly. Finally, there was no request for a jury instruction, and none was given, on which the jury made a clear finding of wilfullness apart from the findings implicit in its verdict awarding punitive damages. For these reasons this is not the kind of action for which an award of attorneys' fees is appropriate.

Accordingly it is hereby ordered that the motions of UCIS and ABIC for judgment notwithstanding the verdict and for a new trial be denied.

DATED: August 8, 1986.

/s/ Pamela Ann Rymer
Pamela Ann Rymer
United States District Judge

FILED
AUG 2 1990
JOSEPH F. SPANIOL, JR.
CLERK

No. 90-43

# In the Supreme Court
OF THE
# United States

OCTOBER TERM 1990

AMERICAN BANKERS INSURANCE
COMPANY OF FLORIDA,
*Petitioner,*

vs.

THE PAYMASTER CORPORATION,
*Respondent.*

**On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit**

## RESPONDENT'S BRIEF IN OPPOSITION

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## QUESTIONS PRESENTED

The Ninth Circuit decided that Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), does not require the infringement of a "protected interest" in the nature of a trademark.

1. Is the unpublished opinion of the Ninth Circuit in conflict with the decisions of other circuits?

2. Does the unpublished opinion of the Ninth Circuit construing the former Section 43(a) of the Lanham Act, 15 U.S.C. 1125(a) (1982), raise significant questions of law where that Section was substantially revised by Congress in 1988?

## LIST OF PARTIES

Respondent concurs with the list of parties presented by Petitioner. The Paymaster Corporation is a corporate respondent but has no affiliated corporations.

## TABLE OF CONTENTS


| | Page(s) |
|---|---|
| QUESTIONS PRESENTED | i |
| LIST OF PARTIES | i |
| STATUTES INVOLVED | 1 |
| STATEMENT OF THE CASE | 2 |
| A. The Parties | 3 |
| 1. Paymaster | 3 |
| 2. ABIC/UCIS | 4 |
| B. The Litigation | 5 |
| REASONS FOR DENYING THE WRIT | 7 |
| I | |
| THERE IS NO CONFLICT OF OPINIONS BETWEEN THE CIRCUITS | 7 |
| A. The Ninth Circuit's Finding That Section 43(a) of the Lanham Act Does Not Require the Infringement of a "Protected Interest" in the Nature of a Trademark is Consistent with Decisions in Other Circuits | 7 |
| B. The Ninth Circuit's Unpublished Memorandum Disposition Is Not Precedent and Creates No Conflict In Any Event | 12 |
| C. The Ninth Circuit's Memorandum Disposition Is Not a Holding That Could Create a Conflict in the Circuits | 13 |
| II | |
| THE ISSUES RAISED BY PETITIONER ARE NOT SUFFICIENT TO WARRANT REVIEW BY THIS COURT | 14 |

TABLE OF CONTENTS

Page(s)

Section 43(a) of the Lanham Act Was Amended in 1988 During the Pendency of the Appeal and the Issues Raised in the Writ Petition Are Moot .... 14

III

THE PETITION IMPROPERLY SEEKS REVIEW OF SUFFICIENCY OF EVIDENCE AND FACTUAL FINDINGS..... 17

IV

CONCLUSION ..... 19

# TABLE OF AUTHORITIES

## Cases


| | Page |
|---|---|
| *Bangor Punta Operations v. Universal Marine Co.*, 610 F.Supp. 612 (S.D.N.Y. 1985) | 10 |
| *Black Hills Jewelry Mfg. Co. v. Gold Rush, Inc.*, 633 F.2d 746 (8th Cir. 1980) | 10 |
| *Bologna v. NMU Pension Trust of NMU Pension & Welfare Plan*, 654 F.Supp. 637 (S.D.N.Y. 1987) | 12 |
| *Chevron Chem. Co. v. Voluntary Purchasing Groups*, 659 F.2d 695 (5th Cir. 1981) | 10 |
| *Mesquite v. Aladdin's Castle, Inc.*, 455 U.S. 283 n. 9, 71 L.Ed.2d 152, 102 S.Ct. 1070 (1982) | 16 |
| *Commissioner v. McCoy*, 484 U.S. 3, L.Ed.2d 495, 108 S.Ct. 496 (1987) | 14 |
| *CPG Prods. Corp. v. Pegasus Luggage, Inc.*, 776 F.2d 1007 (D.C. Cir., 1985) | 11 |
| *Diffenderfer v. Central Baptist Church Inc.*, 404 U.S. 412, 30 L.Ed.2d 567, 92 S.Ct. 574 (1972) | 15 |
| *Finkbohner v. U.S.*, 788 F.2d 723 (5th Cir. 1986) | 12 |
| *Fox Chemical Co. v. Amsoil Inc.*, 445 F.Supp. 1355 (D. Minn. 1978) | 10 |
| *Fusari v. Steinberg*, 419 U.S. 379, 42 L.Ed.2d 521, 95 S.Ct. 533 (1975) | 17 |
| *Gilliam v. American Broadcasting Cos., Inc.*, 538 F.2d 14 (2d Cir. 1976) | 10 |
| *Hall v. Beals*, 396 U.S. 45, 24 L.Ed.2d 214, 90 S.Ct. 200 (1969) | 15 |
| *Harris v. U.S.*, 769 F.2d 178 (11th Cir. 1985) | 12 |
| *Hijar v. Burrus*, 474 U.S. 1016, 88 L.Ed.2d 548, 106 S.Ct. 562 (1985) | 16 |

## Table of Authorities

### Cases


| | Page |
|---|---|
| *Holiday Inns v. Trump*, 617 F.Supp. 1443 (1985) .. | 9 |
| *In re Leimer*, 724 F.2d 744 (8th Cir. 1984) ..... | 12 |
| *Invicta Plastics (USA) Ltd. v. Mego Corp.*, 523 F.Supp. 619 (S.D.N.Y. 1981) ..... | 11 |
| *Johnson & Johnson v. Carter-Wallace, Inc.*, 631 F.2d 186 (2d Cir. 1980) ..... | 9 |
| *Kremens v. Bartley*, 431 U.S. 119, 52 L.Ed.2d 184, 97 S.Ct. 1709 (1977) ..... | 16 |
| *Levi Strauss & Co. v. Blue Bell, Inc.*, 778 F.2d 1352 (9th Cir. 1985) ..... | 10 |
| *Liquid Controls Corp. v. Liquid Control Corp.*, 802 F.2d 934 (7th Cir. 1986) ..... | 10 |
| *Marathon Mfg. Co. v. Enerlite Prods. Corp.*, 767 F.2d 214 (5th Cir. 1985) ..... | 11 |
| *Metric & Multistandard Components Corp. v. Metric's Inc.*, 635 F.2d 710 (8th Cir. 1980) ..... | 9 |
| *Olsonite Corp. v. Bemis Mfg. Co.*, 610 F.Supp. 1011 (D.Wis. 1985) ..... | 10 |
| *Runge v. Lee*, 441 F.2d 579 (9th Cir. 1971) ..... | 18 |
| *Smith v. Montoro*, 648 F.2d 602 (9th Cir. 1981) .... | 7 |
| *Taylor v. Diznoff*, 633 F.Supp. 640 (W.D. Pa. 1986) | 13 |
| *Tiverton Bd. of License Comm'rs v. Pastore*, 469 U.S. 238, 83 L.Ed.2d 618, 105 S.Ct. 685 (1985) ..... | 17 |
| *Transamerican Freight Lines, Inc. v. Brada Miller Freight Systems, Inc.*, 423 U.S. 28, 46 L.Ed.2d 169, 96 S.Ct. 229 (1975) ..... | 14 |

## TABLE OF AUTHORITIES

### CASES

Page

*U-Haul Int'l., Inc. v. Jartran, Inc.*, 793 F.2d 1034 (9th Cir. 1986) ..... 10

*WSM Inc. v. Hilton*, 724 F.2d 1320 (1984) ..... 9

### Statutes and Legislative Materials

The Federal Trademark Act of 1946, 15 U.S.C. § 1125(a) (1982) ..... *passim*

The Trademark Law Revision Act of 1988 (Pub. L. No. 100-667, 102 Stat. 3946, effective November 16, 1989), 15 U.S.C. 1125(a) (1988) ..... 2, 14, 15, 16

S. Rep. No. 515, 100th Cong., 2d Sess. 7, *reprinted in* 1988 U.S. Code Cong. & Admin. News, 5577 .. 16

U.S. Ct. of App. 9th Cir. Rule 36-3, 28 USCA ..... 6, 12

U.S. Ct. of App. 9th Cir. Rule 36-4, 28 USCA ..... 13

### Other Authorities

2 J. McCarthy, *Trademarks and Unfair Competition* § 27:2, p. 344 (2d ed. 1984) ..... 8

No. 90-43

# In the Supreme Court

OF THE

# United States

OCTOBER TERM 1990

AMERICAN BANKERS INSURANCE
COMPANY OF FLORIDA,
*Petitioner,*

VS.

THE PAYMASTER CORPORATION,
*Respondent.*

**On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit**

## RESPONDENT'S BRIEF IN OPPOSITION

## STATUTES INVOLVED

Petitioner has correctly identified Section 43 of the Federal Trademark Act of 1946, as amended (the "Lanham Act"), 15 U.S.C. § 1125(a) (1982) as the relevant act of Congress involved in the Ninth Circuit's decision below. The statute is set forth in full in the Petition, p. 2.

However, Section 43 of the Lanham Act was substantially revised in 1988 by The Trademark Law Revision Act of 1988 (Pub. L. No. 100-667, 102 Stat. 3946).[1]

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[1]The Petitioner fails to set forth the revised statute in full, although it does reference the fact of the amendment in a footnote. Petitioner erroneously concludes that "although the Ninth Circuit's

The Act of Congress now in effect is Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), as amended (1988):

> (a) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which -
>
> (1) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> (2) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,
>
> shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act. (As amended Nov. 16, 1988, Pub. L. 100-667, Title I, § 132, 102 Stat. 3946.)

## STATEMENT OF THE CASE[2]

Respondent The Paymaster Corporation ("Paymaster") opposes the Petition for Writ of Certiorari filed by

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holding construed the 1982 version of the statute, that holding is equally applicable to the present version of the statute." Pet. Br., p. 2, n.1. Petitioner cites no authority for this proposition.

[2]Respondent presents this brief statement of the case to address certain inadequacies of Petitioner's Statement of the Case. (Pet. Br., pp. 3-6).

American Bankers Insurance Company of Florida ("ABIC"). The United States Court of Appeal for the Ninth Circuit, in an unpublished memorandum, determined that Paymaster had adequately proved its claims against ABIC for false advertising and false designation of origin proscribed by Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982). Specifically, the Ninth Circuit held that "Paymaster was not required to establish the infringement of a 'protected interest' in the nature of a trademark in order to support its Section 43(a) claim," and the district court properly denied ABIC's motion for a judgment notwithstanding the verdict and alternative motion for new trial. Petitioner challenges this decision in its Writ Petition.[3]

## A. The Parties

### 1. Paymaster

For more than 50 years, Paymaster has manufactured "checkwriter" machines that imprint checks to make forgery and alteration difficult. Since 1957 Paymaster has provided a warranty to its purchasers with a mechanical guaranty and an indemnification provision. The guaranty covers mechanical defects for two years, and the indemnification provision provides for reimbursement of losses from forgery or alteration of checks printed on the buyer's machine for the same period. After the initial

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[3]Petitioner presents Question No. 2 in its petition, but states in a footnote that it "does not include Question No. 2 among the reasons for the grant of certiorari." Paymaster objects to Question No. 2 and refers to the District Court and Ninth Circuit's findings that Paymaster presented to the jury and the jury rendered its verdict on the basis of substantial evidence, in support of the verdict. Pet. Br. App., pp. 3-4, 15-16.

period, the warranty is renewable for additional two-year periods.

## 2. ABIC/UCIS

Petitioner ABIC and its agent United Commercial Insurance Services (UCIS)[4] marketed and sold insurance policies that insured against losses resulting from forged or altered checks. UCIS also offered a maintenance service agreement for mechanical checkwriter machines. Together the ABIC insurance policy and UCIS maintenance agreement offered by UCIS mimicked the two parts of Paymaster's warranty.

In April 1979 ABIC commenced an agency relationship with UCIS for the sale of check forgery and alteration insurance. At the same time, UCIS began marketing the ABIC forgery insurance and mechanical service contract by direct mail solicitation. The solicitation was designed to have the appearance of an invoice rather than an application for insurance. As a result, many UCIS customers purchased the ABIC insurance and mechanical service contract in the mistaken belief that the solicitation form they received from UCIS was in fact a bill from Paymaster.

Additionally, advertising material in the solicitation purported to compare, but in fact misstated, the differences between the UCIS/ABIC products and those provided by "Plan P," a thinly veiled reference to Paymaster.

Shortly after the mail solicitation campaign started, ABIC began receiving complaints from customers who

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[4]UCIS was a defendant in the underlying action and settled while the appeal was pending before the Ninth Circuit. The facts pertaining to UCIS-ABIC relationships are important to complete the factual context.

told ABIC that they had been deceived by the appearance of the UCIS solicitation. ABIC also received inquiries and complaints from state regulatory agencies about the deceptive invoice-like format. Although attorneys for ABIC recommended that UCIS modify its solicitation to protect against further consumer confusion, including a statement that "this is not an invoice," UCIS' chairman refused to follow the recommendations.

## B. The Litigation

In August 1980 UCIS commenced an action for alleged antitrust violations against Paymaster in the United States District Court for the Central District of California. Paymaster denied all liability in its answer and counterclaimed against UCIS, its principals and ABIC. The counterclaim alleged that UCIS and ABIC violated Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), and California common law prohibitions against unfair competition by falsely representing that their product came from Paymaster and by engaging in false comparative advertising. At trial, Paymaster presented evidence that UCIS' method of marketing — sending a solicitation that appeared to be an invoice to Paymaster customers — was intentionally designed to confuse the recipient. Testimony of UCIS/ABIC customers established actual customer confusion by the solicitation, as customers believed they had received an invoice from Paymaster. The evidence also established that Paymaster suffered damage as a direct result of UCIS and ABIC's misconduct.

On June 2, 1986 the jury returned a general verdict in favor of Paymaster and awarded $5,500,000 in compensatory damages jointly against UCIS, its principals and ABIC, $3,000,000 punitive damages against UCIS and

$2,361,000 punitive damages against ABIC. The District Court filed its Memorandum of Decision and Order on August 12, 1986 denying ABIC's and UCIS' Motions for Judgment Notwithstanding the Verdict and Alternatively for a New Trial.

On January 8, 1990 the Ninth Circuit Courts of Appeals affirmed the judgment of the District Court denying the Motion for Judgment Notwithstanding the Verdict and Alternative Motion for New Trial. The decision was rendered in an unpublished memorandum disposition "Not For Publication" pursuant to Ninth Circuit Rule 36-3. On May 2, 1990, the Ninth Circuit denied the Petition for Rehearing Filed by ABIC. This Writ of Certiorari was received by respondent on July 2, 1990.

## REASONS FOR DENYING THE WRIT

### I.

### THERE IS NO CONFLICT OF OPINIONS BETWEEN THE CIRCUITS

#### A. The Ninth Circuit's Finding That Section 43(a) of the Lanham Act Does Not Require the Infringement of a "Protected Interest" in the Nature of a Trademark is Consistent with Decisions in Other Circuits.

The Ninth Circuit, in upholding the district court's denial of ABIC's Motion for Judgment Notwithstanding the Verdict and alternative Motion for New Trial, found that "[t]here was substantial evidence to support the Lanham Act claim that the direct mail solicitations contained false representations concerning the origin of the services offered." Pet. Br. App., p. 5. The court stated that a jury could reasonably find that "the invoice-designed document established a false impression that it originated from Paymaster" and that "Paymaster was not required to establish the infringement of a 'protected interest' in the nature of a trademark" in order to recover for false advertising under Section 43(a). Pet. Br. App., p. 6. The Ninth Circuit concluded that the district court properly denied ABIC's motions under the expansive interpretation of Section 43(a) reflected in prevailing case law.

False advertising concerning the origin of goods or services is prohibited by Section 43(a). *Smith v. Montoro*, 648 F.2d 602, 603 (9th Cir. 1981). Two of the forms of unfair competition disallowed by Section 43(a) are (i) false advertising, including false representations concerning the origin of goods or services; and (ii) infringement of registered and unregistered marks, names and trade

dress. 2 J. McCarthy, *Trademarks and Unfair Competition* § 27:2, p. 344 (2d ed. 1984).

Since the passage of The Trademark Act of 1946, the federal law of unfair competition has evolved through statutory and judicial interpretation.

> § 43(a) has gradually developed through judicial construction into the foremost federal vehicle for the assertion of two major and distinct types of "unfair competition": (1) "false advertising" and (2) infringement of even unregistered marks, names and trade dress. These two "prongs" of § 43(a) have developed somewhat separately and have achieved their own sub-set of substantive rules. *Both prongs arise out of the same words of § 43(a) in that both rest on the prohibitions against "false designation of origin" and "false description of origin" and "false description or representation". The point is that these words do double duty in covering both classic false advertising as to the qualities of defendant's goods or services as well as use of a mark which infringes a senior user's mark, name or trade dress.*

*Id.* (emphasis added).

ABIC identifies the two prongs of Section 43(a) as (1) false designation of origin and (2) false advertising, rather than the two prongs identified by Professor McCarthy as (1) false advertising and (2) infringement in the nature of a trademark. Section 43(a) does not contain the limitation that "false designation of origin" only gives rise to a claim for infringement. The conclusion that false designation of origin only supports a claim in the nature of trademark infringement and not false advertising is the error in petitioner's analysis. By analyzing Paymaster's claims as trademark infringement claims

under Section 43(a), petitioner concludes that Paymaster did not prove an infringement of a "protected interest" in the nature of a trademark in its false advertising claim. Pet. Br., pp. 7-9.

Section 43(a) proscribes not only acts that would technically qualify as trademark infringement but also unfair competitive practices involving actual or potential deception. *Holiday Inns v. Trump*, 617 F.Supp. 1443 (D.N.J. 1985). See also *Metric & Multistandard Components Corp. v. Metric's Inc.*, 635 F.2d 710 (8th Cir. 1980) (provision of Section 43(a) dealing with false designation of origin was designed to create a new federal remedy for the particular kind of unfair competition which results from false designation of origin *or other false representations* used in connection with the sale of a product) (emphasis added); and *WSM Inc. v. Hilton*, 724 F.2d 1320 (8th Cir. 1984) (same).

The limitation of Section 43(a) claims to require proof of a "protected interest" in the nature of trademark is not supported by statute or case law. In *Johnson & Johnson v. Carter-Wallace, Inc.*, 631 F.2d 186 (2d Cir. 1980), the court held that the statutory tort under Section 43(a) allows suit to be brought by any person who believes he or she is likely to be damaged by use of false description or representation. *Id.* at 189. Section 43(a) does not require proof of intent to deceive, and entitles a broad range of commercial parties to relief, thus differing from a common law action for trade disparagement. *Id.*

A claim of false advertising under Section 43(a) does not require that plaintiff show that defendant infringed upon a "protected interest." The plaintiff must show that "the defendant has made false or deceptive statements of fact concerning its product, consisting of actual misstatements, partially correct statements, or a failure to dis-

close." *Olsonite Corp. v. Bemis Mfg. Co.*, 610 F.Supp. 1011, 1025 (D.Wis. 1985); *see U-Haul Int'l., Inc. v. Jartran, Inc.*, 793 F.2d 1034, 1040-41 (9th Cir. 1986); *Black Hills Jewelry Mfg. Co. v. Gold Rush, Inc.*, 633 F.2d 746, 750-51 (8th Cir. 1980) (false designation of origin violates Section 43(a) even if no protected interest involved); *Liquid Controls Corp. v. Liquid Control Corp.*, 802 F.2d 934, 939-40 (7th Cir. 1986) (same); *Gilliam v. American Broadcasting Cos., Inc.*, 538 F.2d 14, 24 (2d Cir. 1976) ("[i]t is sufficient to violate the Act that a representation of a product, although technically true, creates a false impression of the product's origin"); *see also Chevron Chem. Co. v. Voluntary Purchasing Groups*, 659 F.2d 695, 702 (5th Cir. 1981), *cert. denied*, 457 U.S. 1126 (1982); *Bangor Punta Operations v. Universal Marine Co.*, 610 F.Supp. 612, 625-27 (S.D.N.Y. 1985); and *Fox Chemical Co. v. Amsoil, Inc.*, 445 F.Supp. 1355, 1360 (D. Minn. 1978) ("[T]he majority of courts and the Eighth Circuit hold that allegations of false advertising and resulting injury are sufficient to state a claim under the Lanham Act."). The Ninth Circuit is not in conflict with other circuits in determining that a Section 43(a) false advertising claim does not require proof of a "protected interest."

In contrast, a plaintiff alleging a claim of infringement under Section 43(a) must show that the defendant infringed upon the plaintiff's "protected interest" in a mark. *Levi Strauss & Co. v. Blue Bell, Inc.*, 778 F.2d 1352 (9th Cir. 1985). A "protected interest" in a mark can be a registered mark, "inherently distinctive" mark, or a mark that has acquired "secondary meaning." *Id.* at 1354.

Petitioner claims that all circuits except the Ninth Circuit require that a plaintiff prove that the purportedly infringed interest "has risen to the level of a trademark right by acquiring a 'secondary meaning' " before it can

prevail in a Section 43(a) claim for "false designation of origin encompassing the infringement of trade identity." Pet. Br., p. 7, 9. This position is erroneous.

The error arises from the confusion of the "false advertising" and "infringement" prongs of Section 43(a) and its prohibition against false designation of origin. The principal question in analyzing a claim under Section 43(a) of the Lanham Act is "whether the public is likely to be confused, rather than whether a first-comer's trade dress has acquired secondary meaning." *CPG Prods. Corp. v. Pegasus Luggage, Inc.*, 776 F.2d 1007 (D.C. Cir. 1985) (Section 43(a) "[provides] civil action for a false designation of origin and false descriptions or representations of goods or services.") Federal courts have consistently focused on the likelihood of confusion of an ordinary purchaser as to the source of goods as the "test" of a violation of Section 43(a), *Invicta Plastics (USA) Ltd. v. Mego Corp.*, 523 F.Supp. 619 (S.D.N.Y. 1981), or the "ultimate inquiry or gravamen" of claims under Section 43(a), *Marathon Mfg. Co. v. Enerlite Prods. Corp.*, 767 F.2d 214 (5th Cir. 1985).

There is no requirement that plaintiff must prove infringement of a protected interest in order to establish a claim for false advertising under Section 43(a). Paymaster's right to proceed against ABIC for violation of the false advertising provisions of Section 43(a) is well established within the circuits. The Ninth Circuit's decision does not conflict with other circuits, and the writ should be denied.

### B. An Unpublished Memorandum Disposition by the Ninth Circuit Is Not Precedent and Creates No Conflict In Any Event.

As an unpublished memorandum disposition, rather than a published opinion, the Ninth Circuit's decision cannot be regarded as precedent. Petitioner argues that the Ninth Circuit's holding "is in conflict with virtually every decision to reach the issue of whether a claim for 'false designation of origin' pursuant to Section 43(a) of the Lanham Act requires proof of infringement of a protected interest." Pet. Br., p. 6.

> "Any disposition that is not an opinion or an order designated for publication . . . shall not be regarded as precedent and shall not be cited to or by this court or any district court of the Ninth Circuit, either in briefs, oral argument, opinions, memoranda, or orders, except when relevant under the doctrines of law of the case, res judicata, or collateral estoppel." U.S. Ct. of App. 9th Cir. Rule 36-3, 28 USCA.

Pursuant to Rule 36-3, no federal court in the Ninth Circuit can use the unpublished memorandum disposition as precedent. The Ninth Circuit decision is not and cannot be in conflict with opinions of other circuits because of its lack of precedential value. *Compare In re Leimer*, 724 F.2d 744 (8th Cir. 1984), *on remand* 54 B.R. 587 (pursuant to Eighth Circuit Rule 8(1), unpublished opinions are not intended to create binding precedent); and *Bologna v. NMU Pension Trust of NMU Pension & Welfare Plan*, 654 F.Supp. 637 (S.D.N.Y. 1987); with *Finkbohner v. U.S.*, 788 F.2d 723 (5th Cir. 1986) (Fifth Circuit Local Rule 47.5 allows unpublished opinions to be cited as precedent) and *Harris v. U.S.*, 769 F.2d 178 (11th Cir. 1985) (unpublished opinions are binding precedent in Eleventh Circuit.)

Ninth Circuit Rule 36-4 provides that an unpublished disposition can be redesignated as an opinion: "Publication of any unpublished disposition may be requested by letter addressed to the Clerk, stating concisely the reasons for publication." However, "[s]uch a request will not be entertained unless received within 60 days of the issuance of this Court's disposition." U.S. Ct. of App. 9th Cir. Rule 36-4, 28 USCA. More than 60 days have passed since the memorandum disposition was filed on January 8, 1990 and ABIC's Petition for Rehearing with suggestion for En Banc Reconsideration was denied on May 2, 1990. Thus, the Ninth Circuit's unpublished memorandum has no precedential effect now, and will not be published by the Court. No conflict exists between the Circuits.

### C. The Ninth Circuit's Memorandum Disposition Is Not a Holding That Could Create a Conflict in the Circuits.

Petitioner identifies the Ninth Circuit's memorandum disposition as an "opinion" or "holding" of the Ninth Circuit. Pet. Br., p. 1 and *see, e.g.*, "Opinions Below." The use of the term "holding" as applied to an unpublished disposition by the Court of Appeals is misleading. *Taylor v. Diznoff*, 633 F.Supp. 640 (W.D. Pa. 1986) (reference to language of district court opinion affirmed by Court of Appeals without opinion as a "Third Circuit holding" misleading.)

Because there is no "holding" by the Ninth Circuit creating a conflict between circuits, review of the unpublished memorandum is unwarranted whatever its outcome. Of course, the Court can elect to review an unpublished order of a court of appeals, for example, where the unpublished memorandum rests upon acts in excess of jurisdiction, or resolves conflicts between ex-

isting precedent affirmed by unpublished memorandum and precedential cases in other circuits.[5] However, in this case, petitioner argues only that the Ninth Circuit has misapplied a rule of law in its unpublished memorandum, not that the Ninth Circuit relied on prior Ninth Circuit precedent, or that a jurisdictional issue exists that warrants this Court's review by writ. The writ should be denied.

## II.

## THE ISSUES RAISED BY PETITIONER ARE NOT SUFFICIENT TO WARRANT REVIEW BY THIS COURT

### Section 43(a) of the Lanham Act Was Amended in 1988 During the Pendency of the Appeal and the Issues Raised in the Writ Petition Are Moot.

Section 43(a) of the Federal Trademark Act of 1946, 15 USC § 1125(a), "The Lanham Act", as amended (1982), is identified by petitioner as the relevant Act of Congress to be reviewed by this Court. Pet. Br., p. 2. Petitioner acknowledges in a footnote that "[t]he Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102

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[5] *See Commissioner v. McCoy*, 484 U.S. 3, L.Ed.2d 495, 108 S.Ct. 496 (1987) (Sixth Circuit exceeded jurisdiction in review of Tax Court's proceedings; fact that order was unpublished of no weight Court's decision to review case, as Circuit Court exceeded jurisdiction "regardless of nonpublication and regardless of assumed lack of precedential effect of unpublished ruling"). *See also Transamerican Freight Lines, Inc. v. Brada Miller Freight Systems, Inc.*, 423 U.S. 28, 34, 46 L.Ed.2d 169, 96 S.Ct. 229 (1975) (unpublished district court opinion following established Seventh Circuit precedent affirmed by Court of Appeal in unpublished opinion; certiorari granted per conflict in precedential case with other circuits).

Stat. 3946 (1988) (effective November 16, 1989) . . . amended Section 43(a)" of the Lanham Act.[6] Pet. Br., p. 2, n. 1.

It is well established that an issue can be mooted by the enactment of subsequent legislation, *Hall v. Beals,* 396 U.S. 45, 48, 24 L.Ed.2d 214, 90 S.Ct. 200 (1969), or where the statute that is the basis for the action is repealed or challenged conduct is modified. *Diffenderfer v. Central Baptist Church, Inc.*, 404 U.S. 412, 414-15, 30 L.Ed.2d 567, 92 S.Ct. 574 (1972). In this instance, the plain language of the 1988 amendment of Section 43(a) supports the conclusion that there is no need for this Court to review the Ninth Circuit decision, and the writ should be denied.

Petitioner concluded that because the 1988 amendment of Section 43(a) retains a claim for false designation of origin, the Ninth Circuit's decision "is equally applicable to the present version of the statute." Pet. Br., p. 2, n.1.

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[6]The revised Section 43(a), 15 U.S.C. § 1125(a) states:

(a) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which —

(1) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(2) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods services or commercial activities, shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such act. (As amended Nov. 16, 1988, Pub. L. 100-667, Title I, § 132, 102 Stat. 3946.)

Petitioner cites no authority for its conclusion. There is no reason for this Court to construe the 1982 version of Section 43(a) after Congress in 1988 substantially revised and clarified the same provision.[7]

The fact that a mooting event occurred after the decision below "does not save the . . . claims from mootness. There must be a live case or controversy" before the Court. *Kremens v. Bartley,* 431 U.S. 119, 128, 52 L.Ed.2d 184, 97 S.Ct. 1709 (1977). If it becomes apparent that a case has become moot while an appeal is pending, the judgment below normally is vacated with directions to dismiss the complaint. *Mesquite v. Aladdin's Castle, Inc.,* 455 U.S. 283, 288 n. 9, 71 L.Ed.2d 152, 102 S.Ct. 1070 (1982) *on remand* 701 F.2d 524, *withdrawn, on reh'g* 713 F.2d 137, *reh'g denied* 718 F.2d 1097 (1983).[8]

The revised Section 43(a) of the Lanham Act does not contain the limitation that a claim under Section 43(a) for false designation of origin requires proof of the infringement of a protected interest that rises to the level of a trademark right. Moreover, the Ninth Circuit did not construe the revised act; it properly construed the 1982

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[7]The legislative history of The Trademark Law Revision Act, Section 35 of Pub. L. 100-667 indicates that Section 43(a) of the Lanham Act was revised "to codify the interpretation it has been given by the courts." S. Rep. No. 515, 100th Cong., 2d Sess. 7, *reprinted in* 1988 U.S. Code Cong. & Admin. News 5577, 5604. Congress identified only four areas where it expects the courts to continue to interpret the law on a case-by-case basis: (1) tarnishment; (2) disparagement; (3) standing under Section 43(a); and (4) misrepresentations resulting from omissions of material information. *Id.* None of these areas applies to this case.

[8]Even if this Court first heard of the mooting events after certiorari was granted, it would be appropriate to vacate and remand with directions to dismiss as moot. *Hijar v. Burrus,* 474 U.S. 1016, 88 L.Ed.2d 548, 106 S.Ct. 562 (1985).

statute as the statute in effect at the time it rendered its decision.[9] The substantial revisions to Section 43(a) render the issues in the petition moot.[10]

## III.

## THE PETITION IMPROPERLY SEEKS REVIEW OF SUFFICIENCY OF EVIDENCE AND FACTUAL FINDINGS

While purportedly seeking review of the remedies available to plaintiffs under prior Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), in Question No. 2 Petitioner actually seeks review of the sufficiency of the evidence presented to the jury in the trial court. Pet. Br., p. (i). Question No. 2 involves questions of evidence and factual findings and the writ should be denied on that basis.

The District Court addressed these issues when it found that Paymaster established "actual confusion" of customers as a result of the ABIC/UCIS solicitation. The

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[9]Without an appropriate disclosure of a statute's amendment, the Court cannot assess the issues on appeal because it must review the district court's judgment with reference to existing law, not the law in effect when judgment was rendered. *Fusari v. Steinberg*, 419 U.S. 379, 387-88, 42 L.Ed 2d 521, 528, 95 S.Ct. 533, *reh'g denied*, 420 U.S. 955, 43 L.Ed.2d 433, 95 S.Ct. 1340 (1975).

[10]The effect of the amendment of Section 43(a) on the petition rendering the issues in the writ moot was not disclosed in the Petition. Counsel must fully and candidly disclose all legal developments that may alter the issues before the court. *Tiverton Bd. of License Comm'rs v. Pastore*, 469 U.S. 238, 83 L.Ed.2d 618, 105 S.Ct. 685 (1985) (it is the duty of counsel to call facts that give rise to problems of mootness to the Court's attention "in order that [the Court] may not unknowingly exercise its authority in cases in which it no longer has jurisdiction").

District Court concluded that "[s]ubstantial evidence exists to support the verdict and it is not the function of this Court to reweigh the evidence." Pet. Br. App., pp. 15-16.

The Ninth Circuit similarly determined that there was "substantial evidence in the record that the mailings caused the losses," citing *Runge v. Lee*, 441 F.2d 579, 583-84 (9th Cir. 1971), *cert. denied*, 404 U.S. 887 (1971). "ABIC's arguments on appeal are unavailable to the extent they go to the weight of the evidence and credibility of the witnesses." Pet. Br. App., pp. 3-4.

Two courts have reviewed the evidence and found it to be sufficient. No review of the sufficiency of the evidence by this Court is warranted.

## IV

## CONCLUSION

Respondent, The Paymaster Corporation, requests that this Court deny the Petition for Writ of Certiorari for the reasons set forth above.

Respectfully submitted,

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No. 90-43

In The

# Supreme Court of the United States

October Term, 1989

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA,

*Petitioner,*

v.

THE PAYMASTER CORPORATION,

*Respondent.*

**On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit**

## PETITIONER'S REPLY BRIEF

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES ..... ii

REPLY TO RESPONDENT'S PURPORTED REASONS FOR DENYING THE WRIT ..... 1

I. THE DECISION OF THE NINTH CIRCUIT IS IN CONFLICT WITH THE DECISION OF EVERY OTHER CIRCUIT TO ADDRESS THE ISSUE AT BAR ..... 1

A. Numerous Circuits Have Held That Proof Of The Infringement Of A Protected Interest Is An Essential Element Of A Claim For False Designation Of Origin ..... 1

B. The Ninth Circuit's Opinion, Even Though Unpublished, Is In Conflict With Numerous Decisions Of Other Circuits ..... 4

C. The Ninth Circuit's Memorandum Decision Is a "Decision" Of That Court, Reviewable By This Court ..... 6

II. THE 1988 AMENDMENTS TO THE LANHAM ACT HAVE NOT RENDERED THE CONTROVERSY BETWEEN ABIC AND PAYMASTER MOOT ..... 6

CONCLUSION ..... 9

TABLE OF AUTHORITIES

Page

CASES:

*Blackhills Jewelry Manufacturing Co. v. Gold Rush, Inc.*, 633 F.2d 746 (8th Cir. 1980) ..... 3

*Can-Am Engineering Co. v. Henderson Glass, Inc.*, 814 F.2d 253 (6th Cir. 1987) ..... 1, 5

*Coherent, Inc. v. Coherent Technologies, Inc.*, 736 F. Supp. 1055 (D. Col. 1990) ..... 8

*Commissioner v. McCoy*, 484 U.S. 3 (1987) ..... 4

*Congra, Inc. v. Singleton*, 743 F.2d 1508 (11th Cir. 1984) ..... 5

*Co-Rect Products, Inc. v. Marvy! Advertising Photography, Inc.*, 780 F.2d 1324 (8th Cir. 1985) ..... 5

*Federal-Mogul-Bower Bearings, Inc. v. Azoff*, 313 F.2d 405 (6th Cir. 1963) ..... 1

*Lewis v. Continental Bank Corp.*, ___ U.S. ___, 110 S.Ct. 1249 (1990) ..... 7

*Liquid Control Corp. v. Liquid Control Corp.*, 802 F.2d 934 (7th Cir. 1986) ..... 3

*Rodriguez v. United States*, 480 U.S. 522 (1987) ..... 8

*Taylor v. Diznoff*, 633 F. Supp. 640 (W.D. Pa. 1986) ..... 6

*Tripledge Products, Inc. v. Whitney Resources, Ltd.*, 735 F. Supp. 1154 (E.D. N.Y. 1990) ..... 8

*U-Haul International, Inc. v. Jartran, Inc.*, 681 F.2d 1159 (9th Cir. 1982) ..... 1

*United States Golf Ass'n v. St. Andrews Systems, Data-Max, Inc.*, 749 F.2d 1028 (3d Cir. 1984) ..... 5

TABLE OF AUTHORITIES – Continued

Page

*Vibrant Sales, Inc. v. New Body Boutique, Inc.*, 652 F.2d 299 (2d Cir. 1981), *cert. denied*, 455 U.S. 909 (1982) ..... 2

*WSM, Inc. v. Hilton*, 724 F.2d 1320 (8th Cir. 1984) ..... 1

*Worthington Foods, Inc. v. Kellogg Co.*, 732 F. Supp. 1417 (S.D. Ohio 1990) ..... 8

STATUTES AND RULES:

§ 43(a) of the Lanham Act ..... *passim*

Supreme Court Rule 10.1(a) ..... 6

Supreme Court Rule 10.1(c) ..... 6

D.C. Circuit Rule 11(c) ..... 5

1st Circuit Rule 36.2(b) ..... 5

10th Circuit Rule 36.3 ..... 5

Fed. Circuit Rule 47.8(c) ..... 5

TEXT AND ARTICLES:

S. Rep. No. 515, 100th Cong., 2d Sess. 7, *reprinted in* 1988 U.S. CODE CONG. & ADMIN. NEWS 5577, 5603 ..... 7

2 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 27:2 (2d ed. 1984) ..... 2

2 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 27:7 (2d ed. 1984) ..... 3

## REPLY TO RESPONDENT'S PURPORTED REASONS FOR DENYING THE WRIT

### I.

### THE DECISION OF THE NINTH CIRCUIT IS IN CONFLICT WITH THE DECISION OF EVERY OTHER CIRCUIT TO ADDRESS THE ISSUE AT BAR.

#### A. Numerous Circuits Have Held That Proof Of The Infringement Of A Protected Interest Is An Essential Element Of A Claim For False Designation Of Origin.

In its effort to circumvent the obvious conflict between the Ninth Circuit's decision and every other decision to reach the issue at bar, The Paymaster Corporation ("Paymaster") purports to turn more than a quarter-century of jurisprudence on its head. Since 1963, when the Sixth Circuit Court of Appeals became the first court to recognize Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), as creating a cause of action for a false designation of origin of source of manufacture, *Federal-Mogul-Bower Bearings, Inc. v. Azoff*, 313 F.2d 405 (6th Cir. 1963), courts have dogmatically held that separate causes of action exist for false designation of origin and false advertising, *i.e.*, false description or representation. *See Can-Am Eng'g Co. v. Henderson Glass, Inc.*, 814 F.2d 253, 256 (6th Cir. 1987) ("§ 43(a) contains two separate prohibitions: one against false designation of origin and one against false representation or description."); *WSM, Inc. v. Hilton*, 724 F.2d 1320, 1331 (8th Cir. 1984) ("the purpose of § 43(a) is to create a new federal remedy for the particular kind of unfair competition that results from false designation of origin or other false representation used in connection with the sale of a product."); *U-Haul*

*Int'l, Inc. v. Jartran, Inc.*, 681 F.2d 1159 (9th Cir. 1982) ("a literal reading of § 43(a) indicates that it embraces either a 'false designation of origin' or a 'false description or representation.' "); *Vibrant Sales, Inc. v. New Body Boutique, Inc.*, 652 F.2d 299, 303 (2d Cir. 1981), *cert. denied*, 455 U.S. 909 (1982) ("§ 43(a) of the Lanham Act contains two separate prohibitions: one against false designation of origin, and another against false description or representation."). Paymaster, however, purports to equate the claim for false designation of origin with the claim for false advertising. Paymaster then argues that because no court has held that a plaintiff need prove the infringement of a protected interest in order to sustain a claim for false advertising, the Ninth Circuit's decision is not in conflict with any other decision.

There is not one authority which can be cited for the proposition that a claim for false designation of origin and a claim for false advertising are one and the same. In fact the distinction between the two claims is recognized in Paymaster's own cited authorities. For instance, Paymaster quotes from a prominent authority that the two major claims made under § 43(a) arise from the same passage in the statute. 2 J. McCarthy, Trademarks and Unfair Competition § 27:2 (2d ed. 1984). However, Paymaster conveniently omits that same authority's acknowledgment that "[w]hile both prongs [of § 43(a)] may be asserted in a single case, they remain separate in their substantive rules and applicability. *Id.* (footnote omitted).

Although the claims for false advertising and false designation of origin arise from the same statute, they each remain separate and distinct. Paymaster does not even attempt to distinguish the numerous cases cited

both above and in the petition of American Bankers Insurance Company of Florida ("ABIC") which recognize the difference between false designation of origin and false advertising, and which require proof of the infringement of a protected interest as an element of a claim for false designation of origin. Rather, Paymaster cites to cases wherein claims for false advertising were asserted. Those cases are inapposite to the case at bar.

Paymaster does cite two cases for its proposition that the infringement of a protected interest need not be proven in a § 43(a) false designation of origin case. Those cases, however, simply do not stand for that proposition. In the first, *Blackhills Jewelry Manufacturing Co. v. Gold Rush, Inc.*, 633 F.2d 746 (8th Cir. 1980), the claim asserted was for a false designation of *geographic* origin, not origin of manufacture. It is widely recognized that a claim for false designation of geographic origin "is founded on the false advertising prong of § 43(a)." 2 J. McCarthy, Trademarks and Unfair Competition § 27:7 at 365 (2d ed. 1984). Accordingly, that case is simply another "false advertising" case and has no application to the case at bar.

The second case cited by Paymaster, *Liquid Control Corp. v. Liquid Control Corp.*, 802 F.2d 934 (7th Cir. 1986), similarly did not hold that a protected interest need not be proven in a § 43(a) claim for false designation of origin. In that case, the plaintiff sought relief for the defendant's unauthorized use of the plaintiff's name. Contrary to Paymaster's description of the case, the Seventh Circuit Court of Appeals actually held that the plaintiff's claim was insufficient because its name was a "generic term" not giving rise to a secondary meaning.

Absent a secondary meaning, the plaintiff had no protectable interest under § 43(a). *See* cases cited *infra* note 1.

The authorities relied on by Paymaster do not support its false proposition. Even if the cases cited by Paymaster actually supported the Ninth Circuit's decision as Paymaster asserts they do, those cases would simply further illustrate the conflict between the Ninth Circuit's opinion and the cases cited in ABIC's petition which hold to the contrary.

The Ninth Circuit expressly ruled that Paymaster was not required to prove the infringement of a protected interest in order to prevail on its false designation of origin claim. That decision is in conflict with the decision of numerous other circuits. Plenary consideration of this case is necessary to resolve that conflict.

**B. The Ninth Circuit's Opinion, Even Though Unpublished, is in Conflict With Numerous Decisions Of Other Circuits.**

This Court has stated that the choice of a court of appeals to not publish its opinion is not a factor to be considered when deciding whether to grant a petition for writ of certiorari:

> We note in passing that the fact that the Court of Appeals' order under challenge here is unpublished carries no weight in our decision to review the case.

*Commissioner v. McCoy*, 484 U.S. 3, 7 (1987).

Paymaster's argument that the unpublished decision of the Ninth Circuit is not in conflict with any other

circuit's decision because a Ninth Circuit local rule precludes the citation of unpublished opinions in the Ninth Circuit, is quite perplexing. Whether the Ninth Circuit's decision can be cited in the Ninth Circuit and, therefore, be in conflict with another decision of the Ninth Circuit is irrelevant to whether this Court should grant the petition for writ of certiorari. The relevant question is whether the decision can be cited in any other circuit. Only four of the other twelve federal circuits have expressly declared that unpublished opinions have no precedential value in those respective circuits: D.C. Cir. R. 11(c); 1st Cir. R. 36.2(b); 10th Cir. R. 36.3; Fed. Cir. R. 47.8(c). In each of the remaining circuits, the Ninth Circuit's decision may be cited as precedent. Therefore, in those remaining circuits which have ruled on the issue decided by the Ninth Circuit (the Third, Sixth, Eighth and Eleventh Circuits),[1] the Ninth Circuit's decision creates a conflict.

The fact that the Ninth Circuit decided to not publish its opinion in no manner precludes any litigant or court from having access to that decision. Although reported as a table decision at 892 F.2d 1047 (9th Cir. 1989), the entire text of the decision is readily available on the Westlaw computer service.

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[1] *United States Golf Ass'n v. St. Andrews Systems, Data-Max, Inc.*, 749 F.2d 1028 (3d Cir. 1984); *Can-Am Eng'g Co. v. Henderson Glass, Inc.*, 814 F.2d 253 (6th Cir. 1987); *Co-Rect Products, Inc. v. Marvy! Advertising Photography, Inc.*, 780 F.2d 1324 (8th Cir. 1985); *Congra, Inc. v. Singleton*, 743 F.2d 1508 (11th Cir. 1984).

### C. The Ninth Circuit's Memorandum Decision Is A "Decision" Of That Court, Reviewable By This Court.

Equally perplexing is Paymaster's argument that the Ninth Circuit's memorandum decision is neither a "holding" nor "opinion," and therefore this Court should not grant the petition. Paymaster offers no definition of what it considers to be an "opinion" or "holding" of a court.[2] However, that determination is irrelevant. This Court's rules provide specifically that review by certiorari is warranted when "a decision" of a United States Court of Appeals is in conflict with that of another United States Court of Appeals. Sup.Ct.R. 10.1(a). In addition, when a United States Court of Appeals has "decided" an important question of federal law, review is warranted. Sup.Ct.R. 10.1(c). Certainly, no credible argument can be made that the memorandum decision of the Ninth Circuit was not a "decision" of that court.

## II.

## THE 1988 AMENDMENTS TO THE LANHAM ACT HAVE NOT RENDERED THE CONTROVERSY BETWEEN ABIC AND PAYMASTER MOOT.

Paymaster's argument that the 1988 amendment to the Lanham Act has rendered ABIC's argument "moot" is misplaced. The controversy between ABIC and Paymaster

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[2] The case cited by Paymaster, *Taylor v. Diznoff*, 633 F. Supp. 640 (W.D. Pa. 1986), refers to an affirmance *without opinion* as not constituting a holding. That case did not construe an affirmance with an unpublished opinion, as issued by the Ninth Circuit in this case.

is governed by the 1982 version of the Lanham Act and has been unaffected by the subsequent amendment. This litigation is an actual, ongoing case and controversy pending under the 1982 version of the statute, in which the parties continue to have a personal stake. Accordingly, this case is far from moot. *Lewis v. Continental Bank Corp.*, ___ U.S. ___, 110 S.Ct. 1249 (1990).

Furthermore, the amendment to the Lanham Act did nothing to affect the claim for false designation of origin presently existing in the 1982 Act. In fact, the amendment actually preserved that claim as it has been construed by the judiciary. As stated in the Senate Report construing the amendment to the Act, "section 35 revises section 43(a) of the act (15 U.S.C. 1125(a)) to codify the interpretation it has been given by the courts." S. Rep. No. 515, 100th Cong., 2d Sess. 7, *reprinted in* 1988 U.S. CODE CONG. & ADMIN. NEWS 5577, 5603. The amendment to § 43(a) actually separates the claims for false designation of origin and false advertising. Subsection (1) of the amended act expressly creates a claim for false designation of origin for any misrepresentation which

> (1) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection or association of such person with another person, *or as to the origin, sponsorship, or approval of his or her goods,* services, or commercial activities by another person. . . .

15 U.S.C. § 1125(a)(2) (1988) (emphasis added). Subsection 2, on the other hand, expressly provides a cause of action for false advertising for any misrepresentation which

> (2) *In commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods,* services, or commercial activities. . . .

15 U.S.C. § 1125(a)(2) (1988) (emphasis added).

Indeed courts construing the 1988 amendment have consistently held that to prevail on a claim for false designation of origin, the plaintiff must prove the infringement of a protected interest in the nature of a mark, symbol, name, trade dress, or other identifying feature. *Coherent, Inc. v. Coherent Technologies, Inc.*, 736 F. Supp. 1055, 1068 (D. Col. 1990) ("the same facts which substantiate an action for trademark infringement under § 32 of the Trademark Act of 1946, 15 U.S.C. § 1114, will make out an action for false designation of origin under § 43"); *Tripledge Products, Inc. v. Whitney Resources, Ltd.*, 735 F. Supp. 1154, 1161 (E.D. N.Y. 1990) ("in order to establish standing under § 43(a) of the Lanham Act, a commercial party must show it has a reasonable interest to be protected. . . . "); *Worthington Foods, Inc. v. Kellogg Co.*, 732 F. Supp. 1417, 1430 n. 66 (S.D. Ohio 1990) ("the [1988] amendments do not change the substance of trademark doctrine associated with section 43(a).").

This Court has ruled that even when a statute under review has since been substantially altered or repealed, grounds still may exist for reviewing the former statute on certiorari. *Rodriguez v. United States*, 480 U.S. 522, 526 (1987). In the instant case, where the 1988 amendment actually preserves the cause of action for false designation of origin, the amendment should further compel this Court to grant the petition for writ of certiorari.

## CONCLUSION

This Court should grant the petition for writ of certiorari.

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